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AeroVironment, Inc. (AVAV)

Q1 2027 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to the AeroVironment First Quarter Fiscal Year 2027 Earnings Call. At this time, all participants are in listen-only mode. After the speakers' presentation, we'll open up for questions. [Operator Instructions] Please be advised that today's call is being recorded.

I would now like to hand it over to our first speaker, Denise Pacioni, Head of Investor Relations. Please go ahead.

Denise Pacioni

Vice President, Head-Investor Relations, AeroVironment, Inc.

Thank you and good afternoon, ladies and gentlemen. Welcome to AV's first quarter fiscal year 2027 earnings call. My name is Denise Pacioni, Head of Investor Relations for AV.

Before we begin, please note that certain information presented on this call contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve many risks and uncertainties that could cause actual results to differ materially from our expectations. Further information on these risks and uncertainties is contained in the company's 10-K and other filings with the SEC, in particular, in the risk factors and forward-looking statement portions of such filings. Copies are available from the SEC or on the AeroVironment website, www.avinc.com or from our Investor Relations team.

This afternoon, we also filed a slide presentation with our earnings release and posted the presentation to the Investors section of our website under Events & Presentations. The content of this conference call contains time-sensitive information that is accurate only as of today, September 9, 2026. The company undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

Joining me today from AV are Chairman, President and Chief Executive Officer, Mr. Wahid Nawabi; and Executive Vice President and Chief Financial Officer, Mr. Sean Woodward. We will now begin with remarks from Wahid Nawabi. Wahid?

Wahid Nawabi

Chairman, President & Chief Executive Officer, AeroVironment, Inc.

Thank you, Denise. Welcome, everyone, to our first quarter fiscal year 2027 earnings conference call. I will begin today's call by summarizing our quarterly performance followed by Sean who will review our financial results in greater detail. After this, Sean, Denise, and I will take your questions.

I'm pleased to report excellent first quarter results across several key financial performance metrics that meet or exceeded our expectations. AV reported first quarter revenues of $480 million with record-setting funded backlog of $1.5 billion as well as adjusted EBITDA of nearly $46 million (sic) [$53 million] and bookings of $683 million. These results reflect our focus on capturing key growth opportunities and our ability to execute with excellence. Building on our success from fiscal year 2026, we believe our first quarter results have positioned us well to deliver an even greater and stronger fiscal year 2027.

Before discussing the details of our strong results, let me first highlight some key achievements from the first quarter. First, we won several key contracts on franchise programs during the quarter that contributed to $683 million in bookings. These wins add to a strong bookings pipeline for both this fiscal year and beyond. Second, our funded backlog grew to a record $1.5 billion, which is 37% higher than the same period last year. Third, we achieved record first quarter revenue of $480 million. And fourth, we continued to advance our manufacturing capacity expansion plan across several of our platforms and products to support our strong growth over the next several years. With a strong quarter behind us and positive momentum carrying us into the second quarter, we are reaffirming our fiscal year 2027 revenue guidance of between $2.125 billion and $2.225 billion, and adjusted EBITDA guidance for fiscal year 2027 of between $305 million and $325 million.

Both of our business segments are progressing well toward their fiscal year 2027 growth goals, supported by key domestic and international program wins and increased backlog and revenue contributions. During the first quarter, our Autonomous Systems segment contributed $346 million or 72% of the total company revenue while our Space, Cyber and Directed Energy segment contributed $134.5 million in revenue or 28% of the total company revenue, consistent with our plans for the quarter. Both segments contributed to the 25% increase in funded backlog from the prior quarter due to very strong order flow and several sole source wins.

Our total funded backlog now stands at $1.5 billion. Strong contract wins across multiple programs in both segments, particularly in counter-UAS positions us for record fiscal year 2027 and supports our progress towards long-term growth goals.

I would like to now walk you through some significant achievements since our last earnings call in each of our four main product areas, which are multi-mission ISR, precision strike, counter-UAS, and space and advanced technologies. Starting first with our multi-mission ISR product area, as we had mentioned on our last call, AV's P550 was selected for the U.S. Army's Long- Range Reconnaissance program at the beginning of the first quarter, with an award of $117 million; successful integration into the U.S. Army's Next Generation Command and Control System or NGC2; and strong performance during the recent field test positioned the P550 as another key franchise program expected to drive future growth. We anticipate the LRR program to be a $1 billion program over the next few years.

Also, during the quarter, AV was awarded a $30 million contract to deliver Puma AE and Puma LE systems for Germany's LARUS airborne reconnaissance program. This award represents one of the most significant European Puma procurements to date.

In addition to these wins from our small UAS product line, our JUMP 20 and JUMP 20-X continue to make headways in AV's Group 3 or medium UAS offering. For example, our JUMP 20 recently received an MQ-31A military designation from the Italian Ministry of Defence, formally recognizing AV JUMP 20 as an official military capability. This is a critical next step in the procurement process, enabling the Italian Army to accept deliveries of JUMP 20 and recognizing it as an element of its formal military inventory. With this recent announcement, JUMP 20 and JUMP 20-X have now won several international programs of record just over the last 12 months alone.

Turning now to precision strike, we continue to see progress and momentum across several of our platforms within Precision Strike. Our comprehensive family of one-way attack, loitering munitions, and launched effects products have the ability to meet our customer's immediate needs while remaining adaptable to future requirements. Our recent Switchblade 400 award under the U.S. Army's Low Altitude Stalking and Strike Ordnance or LASSO program is an example of AV's ability to quickly adapt our proven capabilities to meet new customer program requirements. Leveraging capabilities from both the Switchblade 300 and 600, AV's Switchblade 400 is now a key solution set within the U.S. Army's LASSO program.

Also during the quarter, AV received a $51 million U.S. Army contract for Switchblade 600 in support of a Lethal Unmanned Systems IDIQ. Taken together, these two awards position AV as a long-term partner to the U.S. Army.

With 20-plus brigade combat teams and 180-plus soldiers trained, these awards also reflect the U.S. Army's confidence in our solutions and our ability to deliver mission-critical capabilities at speed. Looking ahead, we are also seeing strong demand signals for our one-way attack solution or Red Dragon and increased international demand in loitering munitions.

Turning now to our counter-UAS portfolio, we're extremely excited about the progress we've made this past quarter with our multi-layered counter-UAS defensive systems. Both Titan and LOCUST systems received several awards this past quarter, which are strategic to the long-term growth of these franchise products.

Just recently, we announced two significant wins for our market-leading counter-UAS directed energy platform called LOCUST. As you recall, AV was awarded a landmark contract valued at nearly $465 million for the U.S. Army's Enduring-High Energy Laser or E-HEL program in late August. This award represents the first-ever production contract for directed energy systems in the US military's history. This is a defining moment not only for our company, but also for our customers, our country, and the advancements of laser weapons technology as a critical tool in modern warfare.

Following this announcement, we also announced our first international order for our LOCUST directed energy counter-UAS laser weapon system as a direct commercial sale. This order underscores the growing global demand for scaled high-energy laser weapons systems. As global threats continue to evolve and as asymmetric economics persist on the modern battlefield, directed energy has emerged as an increasingly important, cost-effective solution for countering high-volume, low-cost drone attacks. On under $10 per shot, LOCUST redefines the cost balance between offensive and defensive systems and provides the warfighter with an essentially unlimited magazine. We see these landmark awards as demonstrating the growing demand for LOCUST both in the United States and internationally, and positions AV as a leader for the rapidly expanding directed energy market. Building our momentum from these awards, we anticipate a growing pipeline of opportunities for our LOCUST laser weapon systems both domestically and abroad, and look forward to sharing additional award progress with you in the coming quarters.

In addition to these historic achievements with directed energy counter-UAS, we also announced earlier in the quarter a major contract win for our RF detect and defeat platform called Titan. Our Titan MS was awarded a sole source $500 million IDIQ in support of Joint Interagency Task Force 401 Domestic Shield program, which included an initial $80 million contract in support of the United States Golden Dome initiative. Our Titan series of RF jammers continue to be a market-leading solution in the world and a strong growth driver for the company. And we anticipate the use cases for its capabilities to continue to expand beyond traditional military applications.

In addition to these two counter-UAS program wins, we also announced the expansion of our Huntsville, Alabama facility in anticipation of additional demand for our Freedom Eagle-1 or FE-1 kinetic intercept solution. Since winning the U.S. Army's Long-Range Kinetic Intercept (sic) [Long-Range Kinetic Interceptor] or LRKI program last year, our customer requested an accelerated production schedule, and we received additional Congressional funding to support this acceleration of production and delivery of products on this program. Our investments in capacity expansion will allow us to rapidly scale FE-1 manufacturing in order to meet the U.S. Army's urgent operational needs. This program is critical in filling critical operational requirements needed by our customers to combat low-cost drone threats.

Now, let's look at the progress we made in our space and advanced technologies group. AV recently won a $43 million contract to integrate PANTHER phased array antenna on SkyRange platforms for hypersonic telemetry. This contract will enhance the nation's weapons testing capabilities and will help enable more frequent testing cycles and faster weapons development timelines, especially related to hypersonic weapons. These combined achievements across all four of our product categories during the first quarter demonstrate the breadth and capabilities of our products and solutions across the defense sector.

With several of our products at an inflection point for multi-year sustained growth, we are focused on enhancing operational readiness. As we communicated at our Investor Day this past July, leading the sector in innovation has been and will continue to be a key priority for AV. The progress we made this past quarter demonstrates how that commitment is translating into meaningful customer wins and key franchise program awards across our diversified portfolio.

As we build on this momentum, we're sharply focused on executing with excellence, increasing capacity, scaling production, and delivering high-quality battle-proven solutions to our customers. The investments we are making in fiscal year 2027 are designed to support future growth by positioning us to capture additional awards, expanding capacity across key sites, scaling manufacturing with speed and efficiency, and enhancing the resiliency of our supply chain. We are nearly a third of the way into this fiscal year and we're making significant progress toward achieving these goals.

In fact, just after the close of our first quarter, we announced a $100 million long-term investment of our Southern California facilities to build a new state-of-the-art innovation center and campus. This new facility will consolidate operations and provide additional production capacity. In addition to this investment, we're also progressing on our Salt Lake City facility where we plan to increase loading munitions manufacturing capability. This facility is expected to provide AV with the ability to meet increased demand across our Switchblade product lines well into the future, while also providing additional manufacturing capacity to support other products across our portfolio. This new state-of-the-art campus is on track for a spring of 2027 opening.

Earlier in the quarter, we also announced expansion efforts for our Albuquerque, New Mexico facility, where production is starting for our newly awarded LOCUST contract along with additional future global demand. This facility is planned to be one of the world's largest and highest volume, full rate manufacturing space for laser weapon systems used for defense applications. And as we mentioned earlier, we're also building our Huntsville, Alabama location for our kinetic intercept counter-UAS solution, Freedom Eagle-1. These internally funded capacity expansion projects are specifically designed to keep pace with the rising demand in both the near and long term. We expect that continued investment in our leading platforms will yield meaningful returns and drive long-term value creation.

Before turning the call over to Sean, let me summarize with the following comments. This past quarter was a great start to our fiscal year 2027. We delivered record first quarter revenues and funded backlog, won several landmark awards on franchise programs domestically and internationally, and expanded production capacity across multiple US facilities. Demand across our portfolio remains robust, and we're focused on executing with discipline as we invest in our business, scaling manufacturing and strengthening our supply chain to deliver for our customers at the speed their missions require.

With that, I would like to now turn the call over to Sean Woodward for a review of our first quarter fiscal year 2027 financials. Sean?

Sean T. Woodward

Chief Financial Officer & Executive Vice President, AeroVironment, Inc.

Thank you, Wahid. I will now walk you through our first quarter performance and fiscal year 2027 outlook, referring frequently to our press release and earnings presentation available on our website. I am pleased to report a very strong start to fiscal 2027 with first quarter results meeting or exceeding several of our key financial targets. We exceeded our financial targets for the first quarter of revenue, adjusted EBITDA, and non-GAAP EPS while also achieving positive operating cash flow. We secured solid bookings of $683 million and ended the quarter with record funded backlog of $1.5 billion, up 23% from the prior quarter and higher by 37% from the same period last year.

Relatively consistent unfunded backlog at $1.4 billion brought total funded and unfunded backlog at the end of the first quarter to approximately $2.8 billion. At the same time, we made significant progress on our capacity expansion initiative that we expect will allow the company to quickly scale to meet expected increased global demand. During the quarter, we announced several key capacity expansion efforts directly tied to growth on key franchise programs. First, we purchased and are looking to expand our existing facility in Huntsville, Alabama to support near-term growth needed for our counter-UAS kinetic intercept solution, Freedom Eagle-1.

In addition, we recently announced a $100 million investment in our Southern California campus where we plan to improve execution on engineering, design and development alongside our production operations across multiple platforms. This investment will consolidate multiple existing leased facilities, resulting in expected lower annual operating expenses. We are continuing to make progress on building our production in Albuquerque, New Mexico for our rapidly growing LOCUST counter-UAS solutions.

Besides these three-capacity expansion investments, we are getting significantly closer to opening our new state-of-the-art manufacturing facility in Salt Lake City, Utah. This [indiscernible] (00:21:34) square-foot facility will allow for rapid scaling of our Loitering Munition products and provide additional space for other products that are facing increased demand. As discussed in detail on our July Investor Day, these investments directly support the strong demand we're seeing across our product portfolio. We look forward to sharing further progress on these facility expansions in the coming quarters.

Turning now to first quarter results. We secured bookings totaling $683 million in new authorized contract value. Our book-to-bill ratio for quarter one was 1.4 times, reflecting strong demand for large program awards. Our trailing 12-month bookings exceeded $3 billion, representing a book-to-bill ratio of 1.5 times. Total funded and unfunded backlog at the end of the first quarter was just over $2.8 billion.

Slide 6 of the earnings presentation shows the first quarter revenue by operating group for each of our two segments compared to first quarter fiscal year 2026 revenue. The Autonomous Systems or AxS segment recognized $346 million in revenue in the quarter, which represented a 21% increase over first quarter fiscal year 2026 revenues. The Precision Strike & Defensive Systems operating group generated $197 million in revenue in the first quarter, which represented an 8% increase over first quarter fiscal year 2026 revenues driven by our Loitering Munition family, along with our one-way attack systems and counter-UAS RF Titan products.

The Uncrewed Aircraft Systems operating group generated $120 million in revenue in the first quarter, higher by 71% from the same period last year, led by strong domestic and international sales in P550, JUMP 20-X and Puma. The Space, Cyber and Directed Energy segment generated $134 million in the quarter one revenue, down 21% year-over-year and in line with our expectations, reflecting the first quarter revenue loss from the SCAR contract termination, which occurred in March of this calendar year and other discontinued government programs.

Within the segment, the Space and Directed Energy operating group sales declined 28% year-over-year due to discontinued SCAR program. For reference, SCAR-related revenue was $32 million during first quarter 2026. The Cyber & Mission Solutions revenue declined 16% year-over-year, primarily due to discontinued government programs.

Moving on to gross margins. Slide 12 shows the adjusted product and service gross margin reconciliation to GAAP gross margin. First quarter overall adjusted gross margins of 30% were higher than first quarter 2026 results of 29%. Quarter one adjusted product gross margin was solid at 40% compared to 36% for first quarter 2026. Quarter one adjusted service gross margin was 8%, which was lower than the 13% for first quarter fiscal year 2026. The reason for the decline in quarter one service margin was related to our Cyber & Mission Solutions business. Specifically, we experienced approximately $5 million in revenue impact from discontinued programs combined with other program losses and award delays, which made it more challenging to absorb fixed costs.

Moving on to operating expenses. Adjusted SG&A, which excludes intangible amortization and deal and integration costs, was $85 million compared to $65 million in the prior year. The increase was in line with our expectations, driven largely by key investments in infrastructure, along with expanded business development resources to assist in capturing growing global demand. Additionally, we incurred increased legal expenses and an unexpected non-recurring bad debt reserve of $4.2 million in the quarter. As a percentage of revenue, adjusted SG&A in the quarter was 18% compared to 14% in quarter one of fiscal 2026.

Full year fiscal 2027 adjusted SG&A is projected to be between 14% and 16% of revenue. Quarter one R&D expense was $24 million or 5% of revenue compared to $33 million or 7% during the same quarter in the prior year. Full year fiscal 2027 R&D is projected to be between 7% and 9% of revenue, in line with prior guidance.

In terms of adjusted EBITDA, slide 13 of our earnings presentation shows the reconciliation of GAAP net income to adjusted EBITDA. Quarter one adjusted EBITDA reached $53 million or 11% of revenue, AxS segment adjusted EBITDA was $62 million for the first quarter of fiscal year 2027, with an 18% adjusted EBITDA margin, reflecting strong revenue and gross margin contributions. This was partially offset by SCDE segment adjusted EBITDA, which was negative $9 million, which was expected following lower year-over-year revenue and resulting under absorption of fixed costs in both the Space and Directed Energy and Cyber & Mission Solutions businesses.

Now, turning to non-GAAP earnings per share. Side 11 shows the reconciliation of GAAP and adjusted or non-GAAP diluted EPS. Adjusted EPS reached $0.59 in quarter one, up from $0.32 in the prior year quarter or an 84% year-over-year increase.

Moving to the balance sheet, at the close of the first quarter, our total cash and investments amounted to $675 million, a $38 million decrease from the prior quarter. AV's total debt, composed solely of zero coupon convertible notes, was $747.5 million and a net leverage ratio of 1.6 times adjusted EBITDA.

The company generated $13 million of positive operating cash flow in the first quarter, despite making strategic working capital investments primarily from higher unbilled receivables and inventory. The increase in inventory is intentional, supported by record funded backlog and to ensure key critical components with long lead times are secure. As expected, free cash flow was negative $36 million in quarter one, reflecting higher capital investments to support the expansion of our production facilities. We are still targeting fiscal year 2027 to be negative from a free cash flow perspective driven by the increased capital expenditures.

Now, turning to backlog. Funded backlog totaled $1.5 billion at quarter end, which is 37% higher than the first quarter of fiscal year 2026. Funded backlog composition by segment is $1.1 billion or 75% attributable to the AxS segment and $358 million or 25% for SCDE segment. Unfunded backlog at the end of the first quarter was $1.4 billion, with $1.2 billion or 89% attributable to the SCDE segment and $157 million or 11% to the AxS segment.

It's important to note that our unfunded backlog figures excludes [indiscernible] (00:28:39) value from sole-source IDIQ contracts. The remaining balance on the $990 million US Army Switchblade contracts, the remaining balance on the $874 million UAS and counter-UAS FMS contract, and the remaining balance on the $500 million JIATF-401 counter-UAS RF contract, among others, represents significant additional contract capacity beyond our reported unfunded backlog figures.

Turning now to fiscal year 2027 guidance. On slide 7 of the earnings presentation, you will see we are reiterating our fiscal year 2027 guidance. Based on our strong Q1 performance, record funded backlog position and capacity investments underway, we remain confident in our full year outlook. As Wahid mentioned in his remarks, we continue to expect fiscal year 2027 revenue to be between $2.125 billion and $2.225 billion, representing 10% growth at the midpoint over fiscal year 2026 results. We continue to expect adjusted EBITDA to be between $305 million and $325 million and non-GAAP adjusted EPS between $3.02 and $3.34. Near-term non-GAAP adjusted EPS remains relatively flat year-over-year due to higher anticipated depreciation and cloud amortization expenses from the significant capital deployed in fiscal year 2026 and expected in fiscal year 2027.

A few details on the revenue cadence, adjusted EBITDA profile and non-GAAP EPS distribution. We continue to expect revenue to be stronger in the second half of fiscal year 2027. We are planning on an approximate 45/55 revenue split between the first half and second half. Following this revenue cadence, we expect adjusted EBITDA to be roughly one-third in the first half and two-thirds in the second half of the year. This is similar to the fiscal year 2026 results from a distribution perspective and reflects improved sales mix and higher sales volume in the back half of the year.

Non-GAAP EPS is anticipated to be roughly 30/70 split between the first half and second half. This reflects the adjusted EBITDA profile and the impacts from depreciation expense and stock-based compensation timing. We continue to expect to invest between 7% and 9% of revenue in R&D and 12% to 14% of revenue in CapEx, primarily focused on production capacity expansion across all our product lines, supported by our total backlog. Adjusted SG&A expenses are projected at 14% to 16% of revenue.

In closing, we are very encouraged by our first quarter performance and the strong foundation it provides for fiscal 2027. We deliver results above several of our key financial targets, generated solid bookings and continue to make disciplined investments in the production capacity and innovation needed to support growing demand across our portfolio. With total backlog of approximately $2.8 billion and revenue visibility to the midpoint of our full year guidance at 86%, we believe the business is well-positioned for the balance of the year. Importantly, our recent counter-UAS Awards, including Titan and LOCUST, are already incorporated into our fiscal 2027 outlook. As we continue to scale the business, we remain focused on execution, capacity expansion and long-term value creation in markets where we see sustained demand and favorable multiyear growth tailwind.

Now, I'd like to turn things back to Wahid.

Wahid Nawabi

Chairman, President & Chief Executive Officer, AeroVironment, Inc.

Thanks, Sean. As Sean stated earlier, we are reaffirming our fiscal year 2027 guidance. While we remain optimistic and encouraged by the urgency placed for our solutions and the Department of War budget, there remains some uncertainty around the timing of final budget approval by US Congress. Our view is unchanged from last quarter, and we do not expect this to be a significant risk to our outlook at this time. But it is something we will continue to monitor closely.

In closing, we're very pleased with the progress we made during this past quarter. We won several significant awards which increase our revenue visibility for fiscal year 2027 and provide a strong foundation for growth in the future. We remain focused on execution as we work to meet the growing demand in our markets. With strong momentum across our portfolio and significant opportunities ahead, we believe the long term potential for growth and value creation at AV has never been better and stronger. I would like to thank our employees, shareholders, and customers for their continued commitment to AV and our mission.

And with that, Sean, Denise and I will now take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we'll conduct a question-and-answer session. [Operator Instructions] Our first question will come from the line of Andre Madrid from BTIG. Your line is open.

Ned Morgan
Analyst, BTIG LLC

Q

Hey. This is actually Ned Morgan on for Andre. Thanks for taking the question. I was just wondering, how should we think about LOCUST profitability? And what could the recent awards mean for SCDE margins over the longer term?

Wahid Nawabi
Chairman, President & Chief Executive Officer, AeroVironment, Inc.

A

So, Ned, great question. As you know, we're in an inflection point in the segment to profitability profile and products that are being commercialized. The LOCUST product line is – it is expected based on the contract wins that we have and the future ones that we expect to win to have a very strong margin profile going towards the second half of this year and beyond. That's why, as you heard from Sean and the comments on our guidance that the profitability is stronger and more lopsided towards the second half of the year. It's because a lot of the LOCUST and a few other products in that segment is going to have higher volumes as firm fixed price contracts take over and the margin profile improved significantly.

We expect the LOCUST product line and the segment 2 margin profile to eventually get to the same levels as the segment 1 over the next couple of years. So it is an inflection year, we're growing very fast in that market. We're working on markets and solution sets that is going to set us up for multi-billion dollar opportunities over the next several years. And as we said at the beginning of the year as our plan was to continue to transition those into more mature production, high volume, direct commercial sales, firm fixed price contracts, all of which is going to improve the margins.

Ned Morgan
Analyst, BTIG LLC

Q

Got it. Thank you. And then maybe staying on LOCUST. Are you able to comment on what your current production capacity is? And then what do you see as a sustainable steady rate, production rates?

Wahid Nawabi
Chairman, President & Chief Executive Officer, AeroVironment, Inc.

A

Well, so, Andre, we are winning, as you see, some landmark contracts. The entire laser weapon systems, our Directed Energy laser weapons system market is essentially starting to begin to evolve now. The adoption rate and the knee on this curve is very steep. However, the supply chain and the suppliers that provide systems – subsystems for this is quite young and we're scaling them and improving them as we go. That's why we made a significant investment in our Albuquerque, New Mexico facility to expand production. We are confident that we're going to meet the rising demands.

It will not surprise me in about a year or so that this is a significant franchise for the company, well over $0.5 billion-plus a year franchise. That has been part of our strategy when we acquired BlueHalo. We are making solid progress and we're making solid progress also in terms of increasing production capacity. However, having said all that, it takes some time. There's lots and lots of long lead items we have to do to get those in-house and scale the suppliers where we're bringing on more suppliers. It's a fairly large system, but we are sitting in a very, very good position. I mean, I expect this product line to be a franchise – flagship franchise for the company, essentially, competing with everything else that we do in the business in terms of revenue, profit profile, and scale.

Ned Morgan
Analyst, BTIG LLC

Q

Got it. Thank you.

Wahid Nawabi
Chairman, President & Chief Executive Officer, AeroVironment, Inc.

A

You're welcome, Andre (sic) [Ned].

Operator: Thank you. And our next question will come from line of Louie DiPalma from William Blair. Your line is open.

Louie DiPalma
Analyst, William Blair & Co. LLC

Q

Wahid and Sean, congrats again on the E-HEL contract.

Wahid Nawabi
Chairman, President & Chief Executive Officer, AeroVironment, Inc.

A

Thank you.

Sean T. Woodward
Chief Financial Officer & Executive Vice President, AeroVironment, Inc.

A

Thank you, Louie.

Louie DiPalma
Analyst, William Blair & Co. LLC

Q

I was wondering, you recently announced an international direct commercial sale shortly after the E-HEL contract. And in terms of the total addressable market, how do you view the size of potential international sales relative to domestic sales? I know following the Ukraine war, you've been able to sell many Switchblade 300s and 600s to allies and you have a long history of selling the Raven and Puma to allies. But how do you view the international market for the laser weapon system? Thanks.

Wahid Nawabi
Chairman, President & Chief Executive Officer, AeroVironment, Inc.

A

Thank you, Louie. Yes, we're very pleased with these recent awards. As you said, not only do we win this marquee franchise contract and program with US Army for $0.5 billion nearly, we also won and we announced a direct commercial sale for the first laser weapon system that we're aware of for an international ally. We expect this to be the beginning of a lot more awards, Louie, number one. And number two, the market for these LOCUST systems domestically and internationally are going to be equivalent probably in size. You saw, domestically, we've already won a $0.5 billion contract. And we're engaged with several additional customers. And I think it's the beginning of this inflection point of adoption for the US military.

But beyond that, I see equivalent or if not more demand for these systems internationally. There are lots of places in the world, including the Middle East, Asia Pacific and Eastern Europe that could benefit from our systems because these solutions that exist today cannot economically be sustainable and sustain a long-term conflict where thousands, if not tens of thousands of these Group 1, 2, 3 drones are coming and we're shooting million dollar missiles at them. LOCUST solves that problem, both in terms of economics and depth of magazine. It's very, very unique in that respect. So I tend to believe that there's a multi-billion dollar market just for military applications.

If you fast forward this strategy two to three years later, I could also see non-defense applications for critical infrastructure sites that could become available and suitable for adoption of our laser weapon systems. And AV is unique because we're one of the very few companies in the world that have gone to a full rate production of systems that are deployed now in the battlefields today. And that is a very unique position. And that's why we're expanding capacity because we think over the next several years this could be a massive growth driver and value accretion opportunity for the company.

Louie DiPalma
Analyst, William Blair & Co. LLC

Q

Fantastic. Thanks, Wahid and Sean. That's it from me.

Wahid Nawabi
Chairman, President & Chief Executive Officer, AeroVironment, Inc.

A

You're welcome, Louie.

Operator: Thank you. Our next comes from the line of Peter Arment from Baird. Your line is open.

Peter J. Arment
Analyst, Robert W. Baird & Co., Inc.

Q

Yeah. Hey. Thanks. Wahid and Sean, good to talk to you. Wahid, could you give us an update on kind of like you've won some very large IDIQ contracts supporting the Switchblade production? Where do we stand on what's left in those vehicles and could you give us an update there? Thanks.

Wahid Nawabi
Chairman, President & Chief Executive Officer, AeroVironment, Inc.

A

Sure. So as you know, our win rate and our progress over the last several quarters has been phenomenal. I can't think of another time in the last 16-plus years I've been with the company that we've had such tremendous track record of winning large, strategic contracts. We had a lot of great years, but these are very unique years and I think this is going to continue. And in terms of what's remaining, there's lots of different contracts. Sean had the details on that. In general, there's several contracts that we have. There is a nearly $1 billion US army IDIQ sole-source that we won, which is coming towards a full value. And then we have an international one that's actually barely scratched the surface in terms of how much of that we've used. And then we also are working on additional contracts with other customers. Sean?

Sean T. Woodward
Chief Financial Officer & Executive Vice President, AeroVironment, Inc.

A

Yeah. Peter, we have a couple hundred million left on the current $990 million IDIQ under the current ceiling value remaining.

Peter J. Arment
Analyst, Robert W. Baird & Co., Inc.

Q

Got it. That's great detail. And then just as a quick follow-on, just congrats on the P550 award. What's the next – I guess, what's the path for those 82 aircraft? When you'll be delivering those? And is there another competitive downselect we should be thinking about?

Wahid Nawabi
Chairman, President & Chief Executive Officer, AeroVironment, Inc.

A

Sure. So as you know, the LRR program record that the US Army has expected to be about $1 billion value long-term over the next several years. We are getting the lion's share of the awards. I believe it's between us and one of the competitor. Well, we know that for a fact based on the US Army's announcement. We're essentially getting well over 80% of the dollars of those awards so far, maybe close to 90% of our awards. We're actively delivering those systems as we speak, and we expect to deliver the vast majority of that contract this fiscal year. Almost all of that $117 million this fiscal year. That's why we've been ramping up production. That's why we've been making systems. And by the way, the most important factor for me besides us delivering is that the success of the product in the field, the satisfaction of the warfighter when they get our systems in their hands versus our competition is incredibly high, incredibly high.

What does that mean? It means when the customer and the warfighter uses our product in the battlefield and our systems work and deliver as promised, and if not even more, and our competitors don't, the future acquisitions will be affected by that. It's natural. It's very common for that to happen. And so we expect the US Army to continue to award more contracts as we go forward, because they're just starting the fulfillment of that program, which is close to $1 billion over the next several years. And I think we're in a very good position, and I'm very thankful and appreciative of what our team has done. Worked so hard to get us to this stage.

Peter J. Arment
Analyst, Robert W. Baird & Co., Inc.

Q

Appreciate it. I'll jump back in the queue. Thanks.

Sean T. Woodward
Chief Financial Officer & Executive Vice President, AeroVironment, Inc.

A

Thank you, Peter.

Operator: Thank you. And our next question comes from the line of Jonathan Siegmann from Stifel. Your line is open.

Jonathan W. Siegmann
Analyst, Stifel Financial Corp.

Q

Hey. Good afternoon. Wahid, Sean, and Dennis, thanks for taking my question.

Wahid Nawabi
Chairman, President & Chief Executive Officer, AeroVironment, Inc.

A

Hi, Jonathan.

Jonathan W. Siegmann
Analyst, Stifel Financial Corp.

Q

Congratulations on the orders. Maybe just a touch a little bit on Cyber & Mission, $83 million for the quarter. We were glad to see some sequential growth from the second half of last year that might suggest year-over-year growth might be possible in the back half of the year. Are there any headwinds strengthening or anything else that we should keep in mind when thinking about that subsegment? Thank you.

Wahid Nawabi
Chairman, President & Chief Executive Officer, AeroVironment, Inc.

A

Jon, so look, we're fortunate because we have a very diversified portfolio of product solutions, businesses and groups of business units as well. The cyber security and mission service is a fairly small part of our growth this year. We don't expect that to be at the same pace of growth as the rest of the businesses. We're making significant improvements there. It is not the main pieces of our strategy for growth, the long-term value creation either. And so we've got plenty of growth as you saw for this quarter on many, many other fronts, seven or eight different product lines platforms that are at inflection points to grow very, very handsomely, not only this year, but the years to come.

But overall, we do expect that the financial profile of that business to improve. The growth on that business has never been expected to be as high as the rest of our businesses. But it's just a portfolio approach to our business, a diversified portfolio, and we're making progress. We're pleased with the results so far. We're going to continue to actually work on it. You should see more improvements financially in that business, but it's not going to have the kind of growth as the rest of the business because we were expecting that begin with from the beginning of this business. It's just not the same kind of a market, and the profile of that business is very different.

However, for the year, we remain very focused on growing the entire business. As we said, as Sean said on the guidance, 10% to the midpoint of our guidance range are year-over-year organic growth. We're looking fairly good and we're positioned extremely well. And we came off the first quarter extremely strong.

Jonathan W. Siegmann
Analyst, Stifel Financial Corp.

Q

That's really helpful. And was there any deviation on the timing that you expected on these awards? Was anything slower? I'm just kind of wondering – the question we're getting is, why you didn't raise. So just open to catch on maybe some of the things that didn't go your way if things are just happening a little bit slower than you thought. Thank you.

Wahid Nawabi
Chairman, President & Chief Executive Officer, AeroVironment, Inc.

A

So, Jon, that's a great question. We've asked ourselves that question several times, right? We believe that we've got a lot of growth coming our way. There is one thing that's really uncertain about the market today, which is the timing of the government fiscal year 2027 budgets. We have an election year, but a lot of elections and uncertainty within Congress. That by itself represents a significant potential risk. We don't believe that's going to affect our current guidance and it's only our first quarter. We just came out of the gate on our first quarter. We're positioned extremely well.

And as things progress over the next quarter or so, we'll keep you updated. The long story for AV and the growth potential is fantastic. I can genuinely tell you that from the years that I've been here, the rate of wins that we're having and strategic progress we're making in several strategic areas of our platforms and franchises is positioning us for lots of lots of fantastic growth and value creation opportunities beyond fiscal 2027. That's where we're focused on long-term shareholder value creation, and I think we're on the right track in that aspect of it.

Jonathan W. Siegmann
Analyst, Stifel Financial Corp.

Q

Thank you.

Wahid Nawabi
Chairman, President & Chief Executive Officer, AeroVironment, Inc.

A

You're welcome, Jon.

Operator: Thank you. And our next question will come from line of Seth Seifman from JPMorgan. Your line is open.

Seth M. Seifman
Analyst, JPMorgan Securities LLC

Q

Thanks very much. And good morning or – sorry, good evening. I just wanted to ask, in the Uncrewed Systems (sic) [Uncrewed Aircraft Systems] business, we saw some strong results and pretty much no change relative to the fourth quarter even though there's usually a meaningful, seasonal stepdown. Anything kind of pulled forward there or any reason we wouldn't expect sales there to grow off of the Q1 level?

Sean T. Woodward
Chief Financial Officer & Executive Vice President, AeroVironment, Inc.

A

Hey, Seth. Yeah, so the Uncrewed Aircraft Systems business performed exceptionally well in the first quarter, 71% year-over-year increase expected to continue with a significant growth this fiscal year included in our guidance. The strong award that we got in P550, the increase in the JUMP 20-X and a strong Puma sales that we're seeing both domestically and internationally, all led to that sustained growth. And we expect to continue to see growth in this business throughout the next few quarters.

Seth M. Seifman
Analyst, JPMorgan Securities LLC

Q

Okay. Okay. And then maybe as you think about the Directed Energy franchise growing to that sort of, I think, it was about $0.5 billion range, how do you think about the do you think about that as sort of a small number of relatively chunky orders? Do you think about it as having a large number of customers with a large number of smaller orders? When you look at it, kind of how that market evolves, how do you foresee that breakdown?

Wahid Nawabi
Chairman, President & Chief Executive Officer, AeroVironment, Inc.

A

Seth, it's a great question. I'm glad you brought that up. This is Wahid. What I would tell you is that – I'll go back in history, right? Four or five years ago, when the Ukraine conflict started, it was an inflection point in our Loitering Munition and one-way attack drone market as a whole. The entire market was tiny, very small. And what we saw in Ukraine conflict that the use and the efficacy of drones in one-way attack drone especially made a phenomenal impact and war fighting basically changed forever as a result of it.

I think what a similar inflection point on Directed Energy and counter-UAS, all the weapon systems and defeat mechanisms that the US has and all of our allies has, basically every military in the world to address high-volume attacks by one-way attack drones is economically not sustainable. We cannot continue to shoot down a $100,000, $150,000 Shahed drone with $1 million or $5 million to $10 million of missile. It's just not sustainable against countries like China and Russia in the long run. The sweet spot on that is a directed energy system that has an unlimited magazine of firepower. And it changes the paradigm in economics from millions of dollars per shot to literally less than $10 a shot. That's what our LOCUST system offers today. That's why we won the first program of record for co-production in the US military's history.

I can see in the next five years that that business can be bigger than Loitering Munitions. That business has grown to over $0.5 billion already over the last four, five years. And I think the market for laser weapon systems and directed energy is at least as big, if not bigger globally. And we're just at the beginning of that adoption, just at the beginning. And it's going to take some time because the US military has been working on this and all of our competitors for literally three to four decades. And we're the first company to our knowledge that has really cracked the code and is delivering systems at scale that is actually effective in conflicts today in the Middle East and Ukraine and other parts of the world, including the southern border. And so I consider this to be an inflection point. And over the next several quarters in a year, this business can grow dramatically for AV and the market is very large long term.

Seth M. Seifman
Analyst, JPMorgan Securities LLC

Q

Great. Thanks very much.

Wahid Nawabi
Chairman, President & Chief Executive Officer, AeroVironment, Inc.

A

You're welcome, Seth.

Operator: Thank you. And our next question will come from line of Austin Bohlig from Needham. Your line is open.

Austin R. Bohlig
Analyst, Needham & Co. LLC

Q

Hey, guys. Thanks for taking my question and congrats on the solid results. Just want to spend a quick question on the current funding environment. Just given the Q1 strong results, seems like things are picking up. Just curious if we could get a sense of like with the record funding of or money that was appropriated in fiscal 2026. Do you guys have a sense of how much of that is yet to be deployed as we get into the second half of the year?

Wahid Nawabi
Chairman, President & Chief Executive Officer, AeroVironment, Inc.

A

Yes. So, look, we have a great start on this fiscal year. We reaffirmed the guidance because the visibility levels that Sean articulated, which is historically very high, we should be able to achieve the outcomes that we have in front of us. That's why we reaffirmed our guidance for this fiscal year. The biggest, what I call, question mark is, how fast can Congress approve the next fiscal year's budget? It's really not that relevant, whether it's $1.3 billion or $1.5 trillion, I'm sorry, or $1.8 trillion, whatever the number is up being, as long as the budget gets approved and most likely will be not less than the government fiscal year, I think it'll be fine for AV because the categories that we play in at significant dollars, okay?

Now, the timing of that is a little bit of a risk. We don't consider that to be a risk for our current guidance. But if that were to go longer, then obviously the risk profile increases and we're going to keep you updated. And so that's number one.

Number two, the reason why we're ramping up production in several of our products and several of our sites is because we're getting ready for a potential scenario where the government is going to get the money and whoever can deliver at scale reliably and effectively most likely to get a benefit. We have benefited from that in the past and we're positioning ourselves for that this year as well. And so that's the reason why we're aggressively and judiciously investing in areas that we believe will have solid returns for our company, not only this fiscal year, for years to come.

Austin R. Bohlig
Analyst, Needham & Co. LLC

Q

Okay. Great. And then a quick follow-up just on the recent announcements around tariffs and drone components, just curious on what the impact could be to your guided business.

Wahid Nawabi
Chairman, President & Chief Executive Officer, AeroVironment, Inc.

A

So, yes, the tariffs, of course, was a welcome decision by our government, the Pentagon, as well as the President. We do not see that as a negative impact on us. If anything, we consider that to be a positive. Why? The reason why is because over 98% of our supply chain and supply base is all domestic. We do not rely on export, imports from foreign countries especially countries like China for any of our systems, any of our systems, okay? Number one. The other 2% or so of our supply base are the closest allies of the United States, Canada, Germany, Israel, et cetera, et cetera. So we are in a very good position because we've been working on this problem ahead of the decisions years in advance. It's part of the AV DNA when we develop capabilities and we secure supply chain that we secure those with multiple sources and as much as possible domestically. That's a competitive advantage for AV in my view. And so we don't expect that to be a negative impact. And it could be a positive impact because we can deliver it cost effectively where the competitors have to actually adjust to that environment.

Austin R. Bohlig
Analyst, Needham & Co. LLC

Q

Great. Well thank you, guys. Keep up the good work.

Wahid Nawabi
Chairman, President & Chief Executive Officer, AeroVironment, Inc.

A

Thank you Austin.

Operator: Thank you. And our next question comes line of Pete Skibitski from Alembic Global. Your line is open.

Pete Skibitski
Analyst, Alembic Global Advisors LLC

Q

Yeah. Good evening, guys, and congrats on E-HEL for sure.

Wahid Nawabi
Chairman, President & Chief Executive Officer, AeroVironment, Inc.

A

Thank you, Pete.

Pete Skibitski
Analyst, Alembic Global Advisors LLC

Q

Yeah. Wahid, I was wondering if you could update us. Something we haven't heard in a while is just you used to update us in the number of countries you've been approved to export systems to. Maybe Switchblade, the new programs like Mayhem 10, Red Dragon, maybe P550, I don't know if you had those at hand, but just wondering what we're up to in terms of the approved country list in some of those programs?

Wahid Nawabi
Chairman, President & Chief Executive Officer, AeroVironment, Inc.

A

Yeah. So, Pete, vast majority of our Loitering Munition and Precision Strike Systems have been domestic demand and orders that we've gotten. As Sean mentioned, on the $990 million-plus US Army contract for Loitering Munition, vast, vast majority of that is domestic consumption. Some of it US has taken to give to some of our allies, but majority of it is US, right? And a lot of the growth in demand for Switchblade in the second half of this year and also beyond this fiscal year, most likely going to come from countries outside the US who we've been working with to get them to procure these systems and award us contracts. We have announced a few of those, but there's a list of close to 20 different countries, allies. So we've been approved for both FMS and DCS sales.

The list is pretty large and you will see awards to come in as we progress throughout this year and next year, that is going to continue to grow the international adoption of Switchblade Loitering Munitions and the other platforms that we have in the Precision Strike over the next several quarters and years. So I think definitely on to something that that business is going to continue to grow. The domestic demand has really been the dominant factor in growth so far. And it's going to shift a little bit more towards international demand and it's still going to be a significant contributor to growth for AV overall for this year and next year.

Pete Skibitski
Analyst, Alembic Global Advisors LLC

Q

Okay. Great. Appreciate that. And just last one from me, you talked about the Army LRKI maybe wanting to accelerate that. When do you think you'll kind of finish the test and certification phase and then enter production on that program?

Wahid Nawabi
Chairman, President & Chief Executive Officer, AeroVironment, Inc.

A

So great questions, Pete, because our strategy for counter-UAS is not a one-prong strategy. It's a layered defense approach, a layered defense system means that, first, we use the world's best jammers, our Titan series, which is one of our fastest growing product lines and franchises, to be able to defeat drones that use RF communication. When that doesn't work, then you apply our laser weapon systems called LOCUST. And if that doesn't work, then you go to their last resort, which is you use a kinetic missile or weapon to shoot down any drone that's with the Group 1 to 3.

Today's arsenal of US weapon systems and missiles does not have an economically viable solution to address this problem. That is precisely the reason why this is a strategic priority for the US Army. US Army wants us to go faster because they recognize that if they continue to shoot million dollar missiles at $100,000 to $150,000 Shaheds, it's not going to be economically sustainable. So Congress actually provided us with additional funding just to accelerate. We are aggressively attacking that. That's part of the investments we're making in our Huntsville facility. We have the support of Congress. We have the support of the US Army, and we have the support of the Pentagon to accelerate that. We have won that and it's our chance to actually build another franchise product line for AV.

This year and next year, we're going to be in a rapid testing and certification of this missile. It's literally a brand new missile for the US military. And we are expected to deliver about 60 to 80 systems over the next 12 months or so to 18 months. And then once that is completed, then we're going to get into a initial low-rate production and full-rate production. The full-rate production of that missile is going to be $1 billion franchise long-term, and that's probably about 12 months away from now given what it takes to get to that level over the next 12 to 18 months, Pete.

Pete Skibitski
Analyst, Alembic Global Advisors LLC

Q

Okay, great. Appreciate it.

Wahid Nawabi
Chairman, President & Chief Executive Officer, AeroVironment, Inc.

A

You're welcome, Pete.

Operator: Thank you and our next question will come from the line of Trevor Walsh from Citizens. Your line is open.

Trevor J. Walsh
Analyst, Citizens JMP Securities LLC

Q

Great. Hey, team. Thanks for taking the questions. Sean, maybe I'll start with you. Understand or appreciate the color around the gross margin on the services business. Is that really just going to be a function or I guess how long is that going to stick with us in terms of that being a bit of a drag? Is it really just until the revenues come back to kind of cover the head count or are there other kind of dynamics maybe over the next couple of quarters that you guys can shift things around so that that's not as much of a factor? Just any additional color you can provide there would be great.

Sean T. Woodward
Chief Financial Officer & Executive Vice President, AeroVironment, Inc.

A

Yeah, Trevor. Great question. Yeah. So, the services margins, we did see a downtick in quarter one compared to last year mainly driven by the volume and the reduction in the overall business volume of our services revenue. The SCAR contract being [ph] – can't fold in (01:02:11) some of that revenue, not being able to absorb the fixed costs. We saw the reduction in the gross margins. As the volume increases through some of the key awards that we're expecting to be delivering on and the overall services revenues increase, we expect the margins to improve slightly.

Services margins, it's really where we're focused on growing overall margins. Really this transition to products and commercialization of our products is really where the expansion of our overall EBITDA is going to come from, but near-term, the volume will be the major driver to improve the margins on the services side.

Trevor J. Walsh
Analyst, Citizens JMP Securities LLC

Q

Got it. Okay, great. Super helpful. Wahid, the LOCUST, E-HEL announcement included some commentary around some of the FAA approvals and such for using of directed energy domestically. Our understanding of E-HEL was that it was going to be a little bit more field-centric, deployed on vehicles, kind of more overseas, austere environments, et cetera. Can you just maybe give us a little bit of perspective of how that deal can actually help to kickstart efforts here for more homeland defense when again, I'm presuming that those X3s, they're going to be more, again, forward-deployed and just kind of give us maybe a bit more sense of how one opportunity kind of leads to the next? Thanks.

Wahid Nawabi
Chairman, President & Chief Executive Officer, AeroVironment, Inc.

A

Sure, Trevor. So, great question again. The E-HEL program is the first-ever program to our knowledge where the US military has awarded a contractor a full-rate of high-volume production of a laser weapon systems to be institutionalized within the force structure. The initial deployment of this is going to be on critical sites that the U.S. Army has, but we believe that this is the beginning of an inflection point. We're actively working with the U.S. Air Force, U.S. Navy, U.S. Marine Corps and USSOCOM, and also a lot of other international customers.

In the first time in the history of United States military, we witnessed in the last several months the Secretary of War, Mr. Hegseth; the Secretary of the Army; Secretary of the Navy who have now become believers in using our LOCUST systems in the field shooting down drones, shooting down drones in a realistic, real life test environments. This is a inflection point in this business and in this category. US has been chasing this for three-plus decades and we're the first company that actually basically made the I believe button for them to push the I believe button.

And so, I think it's the inflection point. Yes, initially the program was structured to put on vehicles, moving targets immediately after the event that happened in the Southern border. The FAA said we got to test these things to make sure it's safe to operate these in the national airspace domestically, continental United States. And our system is the first system to our knowledge that has actually been endorsed by the FAA that it's safe to operate in national airspace and it does not pose harm to commercial airlines and airplanes, manned airplanes.

And so, we're very pleased with that because the government and the agencies that are involved in this are moving very, very advanced, but it's still the beginning. It's still the beginning. We expect additional wins, hopefully, over the next several quarters, and we'll keep you updated. What an inflection point.

Trevor J. Walsh
Analyst, Citizens JMP Securities LLC

Q

Perfect. Thanks, both.

Wahid Nawabi
Chairman, President & Chief Executive Officer, AeroVironment, Inc.
A

Thank you, Trevor.

Operator: Thank you. Our next question come from the line of Austin Moeller from Canaccord. Your line is open.

Austin Moeller
Analyst, Canaccord Genuity LLC
Q

Hi. Good afternoon, Wahid and Sean. So, just my first question here on the LOCUST laser weapon system, so 300 cartel drones have been shot down year-to-date at the border and the FAA has approved your system. So, if we think about the DHS budget for which there is $70 billion in reconciliation that was approved back in June, when do you think that might start coming out in the RFP process? What kind of conversations are you having there?

Wahid Nawabi
Chairman, President & Chief Executive Officer, AeroVironment, Inc.
A

Austin, again, a fantastic commentary and question. That DHS opportunity and problem is a significant one, but it's not the only one. We're engaged with several, several customers. As I said, the I believe button has been pushed now in several fronts on direct energy laser weapon systems and especially the sweet spot that we're in, which is between 15- to 30-kilowatt system is a sweet spot of the market, lots and lots of applications. The specifics that you actually shared about 300 cartel drones being shot, we're very proud of. Our systems are working and operating effectively in the Southern border and other areas of the country and I think it's an inflection point.

When exactly those dollars are going to show up and the awards will happen, it's really tough to determine the timing of that precisely. We're working with them actively. The customers are trying to move fast, but they are really writing requirements, holding competitions as we're building and expanding capacity. And it's a multi-faceted challenge and initiative, but I think we're positioned very well and we'll keep you updated as we go forward. There are several, several customers we're working with beyond just U.S. Army and DHS. That should result to some additional wins over the next several quarters for AV.

Austin Moeller
Analyst, Canaccord Genuity LLC
Q

Okay. And then are you able to comment on the build rate ramp for Red Dragon as facility expansion and CapEx is deployed there for that line and the potential for the US military to maybe pull some of those Red Dragon orders forward maybe from some other customers just given the range could be used in Iran?

Wahid Nawabi
Chairman, President & Chief Executive Officer, AeroVironment, Inc.
A

So, I can only comment to this briefly and at a high level, Austin. You're absolutely right. We have a winning solution that is very unique in its capability and efficacy, especially given the kind of conflicts that are going on and threats that are globally. Lots and lots of engagements and demand for that.

We're ramping up production. We have designed that product to get into the thousands of units a year production. We're ramping that up actively today. I'm not able to comment specifically on where we are because of the sensitivity of that mission and customers. What I can tell you, that we're making great progress and we should have updates for you in the near future.

You're absolutely right. That capability is a necessity, not a nice to have. It's a must have in the type of conflicts we see in the world and we're engaged with those customers. They're trying to move quite aggressively, but it still takes time and it's just a matter of just hopefully some timing that we're going to make progress.

We're now waiting for the customer contracts and progress there or in parallel actively based on very strong signal for our customers and engagements with them. We're ramping up production, we're moving units, and we're ready to scale this. We're actually scaling it right now as we speak. This is the reason why we're investing in these facilities, buying long lead material, building units in stock because we know that the demand is coming. We know our customers need it. It's just a matter of how fast they can get into contract.

Austin Moeller
Analyst, Canaccord Genuity LLC

Q

Excellent. Thanks for filling me in on everything.

Wahid Nawabi
Chairman, President & Chief Executive Officer, AeroVironment, Inc.

A

Thank you, Austin.

Operator: Thank you. Our next question will come from the line of Cashen Keeler from BNP Paribas. Your line is open.

Cashen Keeler
Analyst, BNP Paribas Securities Corp.

Q

Yeah, hi. Thanks for the time. Obviously, you guys had a solid first quarter result here on revenue, but with you still expecting 45% of revenue to come in the first half, that implies about a $40 million step-down in revenue in Q2 relative to what you guys said on the last call about the 1Q/2Q split if we can just take things at the midpoint. So, just kind of wanted to unpack that and see if there's any particular reason for that.

Sean T. Woodward
Chief Financial Officer & Executive Vice President, AeroVironment, Inc.

A

Hey, Cash. Great question. We're still holding to our 45/55 split. We've got a fantastic backlog. We're seeing the back half of the year really been an increase in the overall volumes for our revenue. We did really good in Q1. We're able to deliver above our expectations. For the first half of the year, we're still tracking to the 45% and 55% in the back half of the year, well-supported by our capability at 86% and overall increased volumes in Q3 and Q4.

Cashen Keeler
Analyst, BNP Paribas Securities Corp.

Q

Got it. Okay. That's helpful. And then a couple weeks ago, there was a memo from the Deputy Secretary of War regarding greater cost transparency and basically setting margins across the industrial base. So, I guess how can we think about that, what impact it might have on your ability to maintain your kind of margin edge over, say, like legacy defense businesses and hopefully expand margins over time towards your 2030 targets?

Wahid Nawabi
Chairman, President & Chief Executive Officer, AeroVironment, Inc.

A

Cashen, we are absolutely supportive of the government's effort in this area. You know as well as we do that AV's business model and strategy is incredibly unique and enticing and compelling. That particular directive is obviously directed to the entire market and all the suppliers, but we see it more directed to the much larger primes where the department has significant, serious challenges on visibility to their supply chain, their cost models, their cost structures, their rate structures, et cetera, et cetera.

We don't see that to be a impact for us whatsoever. We welcome it. It's still very premature. It's an audacious task that the government has really taken on. Not easy to actually implement such a effort. I really, really support them on that front. We welcome it. We do not see that as a problem. We welcome it. We're ready. We're working with them. We've spent a lot of our money on R&D, [ph] IRA (01:12:32), internal R&D to develop our products as commercial products.

This is the AV business model that we've been working and executing successfully for multiple decades ever since we've been public. It's almost 20 years now that we've been doing this and so it's nothing new to us. We welcome it. I don't see it as an issue and it's more targeted towards much larger primes where this problem is much more acute and a lot more dollars that are sloshed around on lots of munitions and space programs and other things.

Cashen Keeler
Analyst, BNP Paribas Securities Corp.

Q

All right. Thank you. Turn it over.

Wahid Nawabi
Chairman, President & Chief Executive Officer, AeroVironment, Inc.

A

Thank you, Cashen.

Operator: Thank you. Our next question will come from the line of Brian Dobson from Clear Street. Your line is open.

Brian Dobson
Analyst, Clear Street LLC

Q

Yeah. Thanks very much for taking my question. So, at the risk of beating a dead horse, I'd like to ask one more question on LOCUST. You gave some very exciting commentary that perhaps that product being adopted across military branches in a variety of venues. You also signed an international contract. Can you speak a little bit to the demand there and perhaps how quickly you see international sales scaling in comparison with what seems to be a pretty steep ramp in the United States?

Wahid Nawabi
Chairman, President & Chief Executive Officer, AeroVironment, Inc.

A

So, Brian, I'm very optimistic about the international demand for our LOCUST systems. I tend to believe that the revenue may accelerate even faster internationally given the kind of challenges that a lot of our allies have around the world with drone attacks. Look at what's happening in Eastern Europe. Look what is happening in Ukraine. Look what's happening in – around the Black Sea, Persian Gulf, Epic Fury, Middle East, Asia Pacific; prime, prime, prime, urgent needs for these countries to protect themselves. And they just don't have the magazine depth to be able to withstand this type of attack they're getting from some of our adversaries such as Iran and others and in Russia.

So, I think this is part of our strategy from the beginning because we know the sweet spot for counter-UAS is directed energy laser weapon systems and we've got the world's best solution. It's performing, it's working, and we're scaling it. Exactly when those awards are going to come in, I think it's very difficult to predict that, but we do have several engagements and I think those are going to continue to come in and we'll keep you updated. The key was to get the inflection point, the U.S. Army to endorse it, select us, officially say that we're going to deploy this, FAA to approve it and support it and endorse it. And then now everyone else is going to follow not only domestically, but also internationally. It's playing according to our strategy just perfectly, nearly perfectly.

And while that's happening in the market, we're in parallel ramping up production, building systems as fast as we can. And that just takes time.

Brian Dobson
Analyst, Clear Street LLC

Q

Excellent. Thanks very much.

Wahid Nawabi
Chairman, President & Chief Executive Officer, AeroVironment, Inc.

A

Thank you, Brian.

Operator: Thank you. Our next question will come from the line of Clarke Jeffries from Piper Sandler. Your line is open.

Clarke Jeffries
Analyst, Piper Sandler & Co.

Q

Hello. Thank you for taking the question. I guess I'll start with Sean. Wondering if you could comment on the major drivers of cash outperformance in the quarter, what changed in your view and how you see receivables growing or shrinking over the coming quarters. And then just is the CR explicitly considered in your full year guidance for negative free cash flow?

Sean T. Woodward
Chief Financial Officer & Executive Vice President, AeroVironment, Inc.

A

Yeah, Clarke, great question on the cash. We had a positive operating cash flow in the first quarter, $13 million, very favorable on that. We're really working to manage the cash as best way we can while also strategically investing in inventory to get ahead of some of these long lead items and get that in stock to support rapid delivery of our products.

We're anticipating managing the cash from a free cash flow perspective for the full year being slightly negative driven mainly from the CapEx, manage working capital, favorable growth in EBITDA and net income, but really the CapEx is going to drive us through the current year increase in CapEx driving a free cash flow negative. We don't anticipate that carrying into next year. We expect to see our capital levels return to more normalized level as this a inflection point on our production capacity expansion in fiscal year 2027.

Regarding your second question on the CR, so that is factored into our guidance. We stated that in the last call. Things have progressed pretty much exactly as we expected, a short-term CR followed by an approved defense budget. That's what we're expecting to happen in the December timeframe, and our guidance currently reflects that.

Clarke Jeffries
Analyst, Piper Sandler & Co.

Q

Perfect and then if I could just ask a follow-up. Just Wahid, you had this announcement around a joint venture established in Greece. I was wondering if you could just share an overview of where you're at with localizing production in Europe, where you intend that to go. Sounds like any kind of CapEx requirement is already considered in guidance, but just curious as we think about the maturation of unmanned systems, how many of these 20 countries that might be targets for foreign sales might want to move forward with a industrial work share agreement or localized production. Thank you.

Wahid Nawabi
Chairman, President & Chief Executive Officer, AeroVironment, Inc.

A

You're welcome, Clarke. So, we're engaged on with several countries. We have announced a Greece joint venture. We have announced our presence in UK. We already have presence in Germany. We have a joint venture, a small one in Turkey. We also have efforts that we announced in terms of teaming agreements and announcements in Taiwan. You're going to continue to see more and more of these over the next several quarters and years to come both in Europe as well as in Asia Pacific and also in Middle East. Those are the three focus areas, all of Europe, Eastern and Western plus Middle East plus Asia Pacific and then those countries are very specific.

The reason for that is because the demand and the governments' desire for our systems is quite strong. And it requires some level of local content and local presence both in terms of engaging with those customers, but also in terms of actually producing subsystems or doing final assembly.

The Greek military has made public statements that they're going to be procuring a lot of loitering munitions and specifically Switchblade is one of those particular items. And in their government's budget process, it's gone through their Parliament and I've met with their top leaders and it's actually progressing quite well. And so, that's just not the only one, though. We have similar engagements in other parts of Europe and Asia Pacific and in Middle East. And I think you're going to continue to see us progress there as part of our international expansion and growth. And you're going to see more such announcements that happen over the next several quarters and years to come.

Clarke Jeffries
Analyst, Piper Sandler & Co.

Q

Thank you very much.

Wahid Nawabi
Chairman, President & Chief Executive Officer, AeroVironment, Inc.

A

You're welcome, Clarke.

Operator: Thank you. Our next question will come from the line of Gavin Parsons from UBS. Your line is open.

Gavin Parsons
Analyst, UBS Securities LLC

Q

Thank you. Good evening.

Wahid Nawabi
Chairman, President & Chief Executive Officer, AeroVironment, Inc.
A

Good evening, Gavin.

Gavin Parsons
Analyst, UBS Securities LLC
Q

Wahid, you've talked about needing to demonstrate capacity to unlock awards. I mean, is that what we're starting to see in these bookings or do you think bringing Salt Lake and Albuquerque, et cetera, online will unlock more?

Wahid Nawabi
Chairman, President & Chief Executive Officer, AeroVironment, Inc.
A

It's a combination of both. Yes, the current investments that we're making with some of these and we have made over the last several quarters and even last year has already yielded very strong growth, right? When Ukraine war started, we aggressively expanded the production of our Switchblade fan facilities. We aggressively increased the production of our Puma systems for Ukraine.

And then at the same time, when additional demand was needed for, we built the Salt Lake City facility. So, we've gotten awards for that. When we developed the P550, we expanded facilities for P550. U.S. Army gave us an award now and so Titan, the same thing. We've increased the capacity for our counter-UAS systems. There is a direct correlation and link between us investing and showing our customers that we can deliver and producing and delivering on time. And a reliable product to the customer and getting a lion's share of their business. Many people can claim that they have it or they can do it, but unless they demonstrate, it's not the same thing.

And what sets us apart is that we continue to deliver, execute, and demonstrate to our customers that we are a safe bet. And so, I think that's been working for us. Additional capacity expansions that we're making now on LOCUST, on Red Dragon, on Freedom Eagle-1, all of these are going to yield more success in awards over the next several quarters, in my opinion, because we're talking to those customers and they're engaged with us and they want us to do that. And so, it solves the government's problem because they don't have budgets that are long-term and when they get the money, they want to give it to people that can deliver right away or quickly and reliably. And that's AV. We're one of the top companies who can do that actually successfully and we've demonstrated it.

Gavin Parsons
Analyst, UBS Securities LLC
Q

Got it. Okay. And then just back to 2Q kind of guide, Appreciate it's early in the year, still a lot of budget unknowns, but is there anything specific in 2Q that steps down EBITDA even while revenue increases?

Sean T. Woodward
Chief Financial Officer & Executive Vice President, AeroVironment, Inc.
A

Yeah. So, Q2, the way we've laid this out with our revenue profile is the 45/55, the back half of the year being a more favorable volume and improved sales mix. That's what's driving the EBITDA in the second half of the year. First half of the year, we delivered really strong in Q1 and in Q2, we see a little bit of a step-down on even though the volumes of higher overall sales mix is slightly below. And then our increase [ph] to IRA (01:22:50) we expect to pick up in Q2.

Gavin Parsons
Analyst, UBS Securities LLC

Q

Got it. Thank you.

Wahid Nawabi
Chairman, President & Chief Executive Officer, AeroVironment, Inc.

A

You're welcome, Gavin.

Operator: Thank you and our next question will come from the line of Ron Epstein from Bank of America. Your line is open.

Q

Hi, everyone. This is [ph] Andrew (01:23:09) on for Ron. Thanks for taking our questions.

Wahid Nawabi
Chairman, President & Chief Executive Officer, AeroVironment, Inc.

A

Hi, [ph] Andrew (01:23:14).

Q

I just wanted to follow-up on the question, folks. Hey, Wahid. Yeah, I just wanted to focus on Greece for a second. There was a question a few moments ago on it about the AV Eagle joint venture. You guys announced that in August and then this week Greece announced a multibillion-dollar missile defense deal was signed. So, I was wondering what are you guys seeing there in terms of demand specifically for directed energy systems given the recent LOCUST wins. Is there a place for LOCUST in Greece's new Achilles Shield system?

Wahid Nawabi
Chairman, President & Chief Executive Officer, AeroVironment, Inc.

A

Yeah. So, [ph] Andrew (01:23:54), we're engaged very closely with the Greek military on several fronts. I have personally met multiple times with their chief of defense and the gentleman who was very reputable, very credible, and very focused. They are very laser-focused on making sure that they adopt a large portion of their procurement to be things such as loitering munition and specifically Switchblade. So, we're engaged with that. There's a competition. I can't comment specifically on it, but they do have funding in the budget that's gone through their Parliament and for approval. They've made public announcements on that and statements. And it's been well-documented in that regard.

In terms of their laser weapon systems and the need for that, we're already engaged with them. The existing contract agreement, the contract you described is something a little bit specific. It does not include our LOCUST today, but it could easily expand into that and they're absolutely interested in that. They were more waiting for the U.S. Army to select on E-HEL, that E-HEL announcement and success most likely going to actually instigate many allies not just Greece to become more sort of bullish and aggressive and their effort to try to procure systems such as LOCUST.

I feel really good about it. I think we're engaged with several countries on that front, not just Greece, but the main focus on Greece today is about products such as Switchblade and our JUMP 20 and other systems. And the LOCUST system's a little bit further behind on that front with Greece specifically.

Q

Got it. I appreciate that color and I guess just a quick follow-up. So, was the recent international contract kind of a similar dynamic where the customer was waiting to see validation from the U.S. Army?

Wahid Nawabi
Chairman, President & Chief Executive Officer, AeroVironment, Inc.

A

The answer is yes, [ph] Andrew (01:25:59), validation from two fronts. The U.S. Army, of course, because US military and approvals and program record selection is the golden standard about allies in general. You have seen that in our 20-plus year track record. When we win program records with the U.S. Army for Puma, for Raven, for Switchblade, for our Titan, whatever product we won programs with the US military and almost always translates into adoption internationally with not one ally, but several of them. So, that was one.

The second key criteria that was also for them to come to United States goes to the field, test and push the I believe button by shooting down drones themselves in the field. They did that. We demonstrated it. Our system worked while the competitive systems are not working and therefore they give us the award. And we expect that to continue with additional customers. That has always been our strategy to just basically demonstrate and deliver. And if we do that, obviously adoption will occur. And that's consistent with our strategy with LOCUST as well.

Q

Got you. I appreciate the detail.

Wahid Nawabi
Chairman, President & Chief Executive Officer, AeroVironment, Inc.

A

You're welcome, [ph] Andrew (01:27:13).

Operator: Thank you and this concludes the question-and-answer session. I would now like to turn it back over to Denise for any closing remarks.

Denise Pacioni
Vice President, Head-Investor Relations, AeroVironment, Inc.

Thank you once again for joining today's conference call and for your interest in AV. As a reminder, an archived version of this call, SEC filings, and relevant news can be found under the Investor section of our website. We hope you enjoy the rest of your evening and we look forward to speaking with you again following next quarter's results.

Operator: Goodbye. Thank you for your participation in today's conference. This does conclude the program. You may now disconnect. Everyone, have a great day.