Earnings Transcript Summary

Ticker: NOC
Quarter: Q2
Year: 2025
Earnings Date: July 22 2025

Stock Analysis

Largest Gain: 2025-07-22 (+9.41%)
Largest Drop: 2025-07-18 (-0.91%)
Earnings Day (2025-07-22): +9.41%

Key Metrics

Revenue:

9.0

Free Cash Flow:

3050.0

Guidance:

• Before we start, matters discussed on today’s call, including guidance and outlooks for 2025 and beyond, reflect the company’s judgment based on information available at the time of this call.

• Based on the strength of our second quarter results and confidence in our second half outlook, we are increasing our guidance for segment operating income, earnings per share, and free cash flow.

• Next, I’ll provide updates on our forward outlook, starting with segment-level guidance on slide seven.

• Altogether, we expect Q3 sales to be up 3% to 4% compared to Q2, with further acceleration in Q4, positioning us to deliver on our full-year sales guidance.

• For segment operating income, we are increasing the guidance range by $50 million at the midpoint, driven by higher margins at DS that I previously described.

• With respect to earnings per share, we are increasing our guidance range driven by higher segment operating income.

• We are reaffirming our guidance for corporate unallocated expenses and expect roughly $100 million of expense in both Q3 and Q4 due to timing of state taxes and normal seasonality.

• Taking all those elements into account, we are increasing our EPS guidance by $0.05 and now expect a range of $25 to $25.40.

• Lastly, with respect to cash, we are increasing our 2025 guidance range and now expect free cash flow of $3.05 billion to $3.35 billion.

• But when you look at the guidance increase for the year, it's pretty small.

• If you look across the segments, very strong performance in line with expectations where we need them to deliver in order to meet the guidance range that we provided.

• Kathy Warden: We're not ready to provide any guidance beyond this year, but certainly, we raised our guidance for the segment for this year, and the drivers for that increased confidence certainly are fundamental.

• I would have you wait until we give you some guidance for 2026, but my expectation says that defense systems continue to perform very well and that the tailwinds for both international growth and the which is a mix factor and performance are both leaning favorably for them.

• Is that in addition to the absence of the $250 million headwind from capitalization you're previously anticipating in the 2025 guidance?

• Number one is in terms of our road map, in terms of cash flow, nothing has changed from the previous commentary that I've made regarding hey, we're continuing to focus on managing risk, managing opportunities, making sure that we're rationalizing investments to get the guidance in the baseline case.

Forward Look:

• As we look towards the second half of the year, we expect continued ramp on franchise programs and normal operational seasonality to support accelerating growth.

• In Europe, we see significant opportunities for IVCS and weapon systems.

• As we look to Golden Dome for America, we see Northrop Grumman playing a crucial role in supporting the administration's goal to move with speed and have initial operating capability in place within the next few years.

• We expect Sentinel revenue momentum to continue and for the program to be a meaningful contributor to our growth in the second half of the year.

• Overall, we expect to increase our total annual solid rocket motor production rate from 13,000 units today to 25,000 by 2029.

• First, we expect the TRIAD programs on B-21, Sentinel, and Columbia to collectively deliver roughly $750 million in higher second-half sales.

• B-21

• We expect this normal seasonality to continue this year, contributing roughly $1 billion of higher second-half sales.

• Altogether, we expect Q3 sales to be up 3% to 4% compared to Q2, with further acceleration in Q4, positioning us to deliver on our full-year sales guidance.

• Given the bill was approved in July, we expect an effective Q3 tax rate of approximately 21% to reflect the cumulative impacts to date.

• Lastly, we expect a significant benefit from inventory liquidations, particularly in Aeronautics in Q4.

• Sales, margins, earnings per share, and cash all increased neatly from Q1, with momentum that we expect to continue in the second half of the year.

• What we're trying to understand is if you look at that very strong funding profile, when and how might we see an impact in your revenues and earnings in those two programs?

• As we look going forward, we expect those commitments that NATO countries have made to increase defense spending and general national security spending to 3.5% to 5% respectively of GDP, to continue to provide a basis for this strong awards and sales growth within the company.

• But now that we see this funding in the reconciliation bill, I don't know if it's possible to revise that outlook and, likewise for what it does for the $4 billion of cash flow in 2028.

• With international, we continue to see a mix of direct commercial sales and SMS and we expect that to continue.

• It is the capability that we believe can be accelerated and into the time frame that the administration is looking for.

Prior Year Mentions:

• So on an organic basis, DS sales increased 9% compared to the prior year.

• Segment operating income was higher by 11% compared to Q2 of last year, and our segment operating margin rate increased 100 basis points year over year to 11.8%.

• AS operating income was up 3% compared to the prior year, with a Q2 operating margin rate of 10.3%.

• Operating margin rate was 10.6%, up 50 basis points from Q2 of last year, driven by higher net EAC adjustments.

Year Over Year Mentions:

• In the second quarter, our international sales grew by 18% year over year and are up 14% year to date.

• As shown on slide four in the earnings deck, second-quarter sales were $10.4 billion, up 1% year over year.

• Our organic sales were $10.3 billion, up 2% year over year, reflecting the divestiture of the training services business which closed ahead of schedule at the end of May.

• Aeronautics second-quarter sales increased by 2% year over year, due to higher volume on B-21 and TACOMO, partially offset by lower restricted sales.

• Mission Systems was our fastest-growing segment in Q2, with sales up by 14% year over year.

• At Space, Q2 sales were lower primarily due to the previously communicated wind-down of work on two programs, reflecting $283 million of year-over-year headwinds.

• Segment operating income was higher by 11% compared to Q2 of last year, and our segment operating margin rate increased 100 basis points year over year to 11.8%.

• Mission Systems' second-quarter margins expanded to 14%, and operating income increased 22% year over year.

• Moving to earnings per share, slide six shows year-over-year EPS comparison.

• This was driven by two factors: higher sales and improved segment performance, which contributed $0.80 of year-over-year benefit, and a gain of $1.04 recognized on the divestiture of the training services business.

• Now what we're seeing is that those awards are reflected in the strong sales growth that I mentioned, 18% year over year, 14% year to date.

Compared To Mentions:

• In addition, our revenue increased 9% compared to the first quarter, with higher sequential sales in all four segments.

• Sequentially, Q2 sales were up 9% compared to Q1, with all segments contributing to this meaningful growth.

• So on an organic basis, DS sales increased 9% compared to the prior year.

• Segment operating income was higher by 11% compared to Q2 of last year, and our segment operating margin rate increased 100 basis points year over year to 11.8%.

• AS operating income was up 3% compared to the prior year, with a Q2 operating margin rate of 10.3%.

• In total, second-quarter diluted earnings per share was $8.15, an increase of 28% compared to the second quarter of 2024.

• Altogether, we expect Q3 sales to be up 3% to 4% compared to Q2, with further acceleration in Q4, positioning us to deliver on our full-year sales guidance.

• In the quarter, we generated $637 million in free cash flow, a significant improvement compared to the first quarter.

Raising Mentions:

• Kathy Warden: We're not ready to provide any guidance beyond this year, but certainly, we raised our guidance for the segment for this year, and the drivers for that increased confidence certainly are fundamental.

Production:

• The Air Force has recently confirmed it is committed to the successful fielding of the B-21 and its infrastructure necessary to support an increased yearly production capacity.

• Through reconciliation, the B-21 received an additional $4.5 billion to increase production capacity.

• This builds on the efforts that we and the Air Force have made previously to prepare for a more rapid production ramp.

• We are in discussions with the Air Force regarding potential for an accelerated production ramp on the program.

• While the ultimate outcome of these discussions remains uncertain, we currently expect any agreement to accelerate production ramp would require further investment by the company to expand production capacity along with the opportunity to earn improved return on the LRIP and NTE production lot.

• Overall, we expect to increase our total annual solid rocket motor production rate from 13,000 units today to 25,000 by 2029.

• This portfolio continues to have a mix of mature production programs and newer development programs, and with coupled with strong program execution and disciplined cost management, it provides a formula for AS to deliver healthy margin rates.

• This quarter's margin reflects improved production efficiencies and performance across airborne radar programs.

• These awards will also include a significant amount of revenue recognition due to inventory liquidations for materials purchased to support production schedules.

• Lastly, Q4 has historically been our strongest quarter of revenue generation, driven by production schedules and timing of materials.

• The MS profile is enabled by continued strong program performance, higher international sales, and seasonal volume increases to higher margin production later in the year.

• So the important takeaway here is that the reconciliation bill now provides the funding for the expansion of production capacity for the B-21.

• We were already working with the Air Force on plans to accelerate production capacity, and now we are in discussions about how those funds will be used to make that happen.

• We are looking to get a fair and equitable business arrangement where we would be incentivized to invest in that production capacity.

• I've also talked in the past about co-production where we have expertise, but it's best for a local industrial partner to actually build the capability.

• That would be B-21 with the additional $4.5 billion mainly focused on production capacity expansion.

• Finally, E-2D, which has a billion and a half additional funding to support the program being extended partly for the Homeland Defense Mission, but also partly just as the only production capability that can match the E-3 and to be a replacement for that capability.

• How does the maturation of the command and launch segment change the E&D; margin profile for defense through the end of the decade when production starts?

• Depending on the final agreement for the production on B-21, we do now believe it could exceed the 10% of our total revenue in the future, but it's really early to provide any more definitive outlook.

• With Sentinel and how large it could become as part of the portfolio, I don't see it reaching that 10% of revenue in the next couple of years despite the additional funding that we've received, but certainly as we move into the production phase of the program.

• But as I've talked about in munitions and other areas that we are selling off of hot production lines, DCS certainly is a more expeditious way of working with customers.

• We're doing well on supporting the production needs for the current platform.

• As a follow-up on B-21 and the potential for an increase in the production ramp there.

• Whereas in Q1, there was this charge to potentially accommodate additional production, as things stand here today with additional money and reconciliation, if you were to agree with the Air Force on increased production, you wouldn't anticipate a further charge on the program.

• As I said in my prepared remarks, and we had in the 10-Q, we recognized that accelerating the production ramp will likely require future investment by the company, and our discussions with the Air Force are to accompany that with the opportunity to earn improved return on the program to get a return on that increased investment that we would be making.

Outlook:

• Before we start, matters discussed on today's call, including guidance and outlooks for 2025 and beyond, reflect the company's judgment based on information available at the time of this call.

• Based on the strength of our second quarter results and confidence in our second half outlook, we are increasing our guidance for segment operating income, earnings per share, and free cash flow.

• This all leads to a strong outlook for our company.

• I'll now turn to Ken to share more details on our second quarter financial results and our outlook.

• This performance was driven by the recognition of a favorable EAC adjustment on the E&D; phase of the Sentinel program, primarily based on expectations for achieving certain contract incentives.

• Next, I'll provide updates on our forward outlook, starting with segment-level guidance on slide seven.

• For sales, we are maintaining our top-line outlook at AS and DS of low $13 billion and low $8 billion respectively.

• At Mission Systems, we are increasing our sales expectations to low to mid $12 billion, based on the strength of their year-to-date results and continued growth on domestic and international programs throughout their portfolio, including airborne and ground-based radar, EW, and restricted programs.

• With respect to operating margin rate, we are maintaining our margin rate expectations for AS, MS, and Space.

• At DS, we are increasing our margin rate expectations to mid-10%, based on their notable Q2 results.

• At the company level, as shown on slide eight, we are narrowing the range of our top-line outlook and expect organic sales growth of approximately 3% for the year.

• Our outlook projects sales in the second half of the year to be higher than in the first half by approximately $2.5 billion.

• If you look across the segments, very strong performance in line with expectations where we need them to deliver in order to meet the guidance range that we provided.

• That has improved our outlook for the program meeting its milestones, and we're just really encouraged with how it's progressing.

• We'd continue to grow after this year where we had talked about the business would be down but start to regrow into 2026, and we still have that expectation.

• The change versus maybe where expectations were a year ago?

• Can you just talk about how Defense Systems' revenue growth profile changes based on weapons commentary and international growth outlook?

• Based on our expectation for realizing incentive on the program during that phase.

• I would have you wait until we give you some guidance for 2026, but my expectation says that defense systems continue to perform very well and that the tailwinds for both international growth and the which is a mix factor and performance are both leaning favorably for them.

• But now that we see this funding in the reconciliation bill, I don't know if it's possible to revise that outlook and, likewise for what it does for the $4 billion of cash flow in 2028.

• Depending on the final agreement for the production on B-21, we do now believe it could exceed the 10% of our total revenue in the future, but it's really early to provide any more definitive outlook.

• The same is really true for our cash flow outlook as we think about the investments that we would make as part of this arrangement, the improvements and incentives that we would expect we will look at all of that in combination to be able to update you.

• It is our expectation that in the long run, these investments result in both better profitability and cash flow.

• Some of those may be barriers in the contract itself, others might just be the way that we're operating on programs, and that has been very positive and you see that reflected in our Q2 performance but also our outlook as we've talked about a couple of programs here today.

• We remain strong on our outlook for the company as both global demand as well as domestic.

Demand Mentions:

• The US and our allies are making significant investments in defense capabilities, and we continue to see growing demand and opportunity for our broad range of product offerings.

• The demand acceleration for our products extends outside the United States.

• With a commitment to continue innovating and investing in capacity, and a strong global demand signal from our customers, we are confident in our long-range potential growth.

• The capital investments we've made and that we continue to make allow us to meet this demand from our customers, remain competitive, and lay the groundwork for our future growth.

• We have an outstanding portfolio, robust global demand and funding environment that supports it, and a high-performing team.

• We remain strong on our outlook for the company as both global demand as well as domestic.

Sentiment Analysis

Section	Compound	Positive	Neutral	Negative
Guidance	0.3979	0.1292	0.8657	0.0049
Forward Look	0.378	0.1341	0.8564	0.0094
Prior Year Mentions	0.1366	0.0528	0.9473	0.0
Year Over Year Mentions	0.1672	0.091	0.8848	0.0241
Full Text	0.9994	0.146	0.841	0.013