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Lockheed Martin (LMT) Q3 2024 Earnings Call Transcript

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LMT earnings call for the period ending September 30, 2024.

Lockheed Martin (LMT 4.30%)

Q3 2024 Earnings Call

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IMAGE SOURCE: THE MOTLEY FOOL.

Contents:

Prepared Remarks:

Operator

Good day, and welcome, everyone, to the Lockheed Martin third quarter 2024 earnings results conference call. Today's call is being recorded. [Operator instructions] At this time, for opening remarks and introductions, I would like to turn the call over to Maria Ricciardone, vice president, treasurer and investor relations. Please go ahead.

Maria Ricciardone -- *Vice President, Treasurer, and Investor Relations*

Thank you, Steve, and good morning. I'd like to welcome everyone to our third quarter 2024 earnings conference call. Joining me today on the call are Jim Taiclet, our chairman, president and chief executive officer; and Jay Malave, our chief financial officer. Statements made in today's call that are not historical facts are considered forward-looking statements and are made pursuant to the safe harbor provisions of federal securities law.

Actual results may differ materially from those projected in the forward-looking statements. Please see today's press release and our SEC filings for a description of some of the factors that may cause actual results to differ materially from those in the forward-looking statements. We've posted charts on our website today that we plan to address during the call to supplement our comments. These charts also include information regarding non-GAAP measures that may be used in today's call.

Please access our website at www.lockheedmartin.com and click on the investor relations link to view and follow the charts. With that, I'll turn the call over to Jim.

James D. Taiclet, Jr. -- *Chair, President, and Chief Executive Officer*

Thanks, Maria. Good morning, everyone, and thank you for joining us on our third quarter 2024 earnings call. The demand for Lockheed Martin systems and services remains robust across all four of our business areas. We ended Q3 with record backlog of more than $165 billion, reflecting a book-to-bill ratio of 1.3 in the quarter.

Precision and Air defense munitions drove the increase, including large orders for Javelin, guided multiple launch rockets and joint air-to-surface standoff and long-range antiship missions. Compared with last year's third quarter, sales increased and segment operating margins expanded 20 points to 10.9%, led by Missiles and Fire Control, reflecting increased production volume. Free cash flow was $2.1 billion in the quarter as we continue to implement working capital efficiencies and optimization. High confidence in our future cash generation prospects supported our board's recent decision to raise the quarterly dividend by 5% to $3.30, the 22nd consecutive year of increases, and to extend our share repurchase authorization.

Turning to the F-35, we delivered 48 F-35 aircraft in the quarter. We expect to deliver 90 to 110 aircraft in 2024 and the remaining balance of the Lot 15 to 17 aircraft thereafter. In addition, TR-3 flight testing continues with 95% of combat capabilities validated and additional capabilities progressing. With over 1,040 aircraft delivered and growing, the F-35 fleet has become an essential component of the collective security of the U.S.

and our global allies. For example, by the 2030s, over 600 F-35s will be in operation across more than 10 European nations. And in July, Greece announced that it will be the 19th nation to fly the F-35 and will acquire 20 aircraft. Plus the rollout of the initial F-35 for Poland in August marked a significant milestone in our 20-plus year partnership with that country.

The F-35 superior sensors, stealth and data sharing capabilities are setting new standards for interoperability and joint operations with our allies, serving as the cornerstone for NATO's deterrence and defense posture. To further augment the capabilities of the F-35 and our other major platforms, we are investing heavily in autonomy and AI, as well as other enabling digital technologies. As an example, our Lockheed Martin AI Center and our RMS business area conducted realistic teaming scenarios with uncrewed aerial systems or drones, and uncrewed ground vehicles at the U.S. Army in their recent experimental demonstration event.

The successful demonstrations exhibited our abilities for using AI, by launching an autonomous drone to provide guidance and navigation instructions to a ground-based robot to help it navigate a dangerous urban environment and enable greater safety for our soldiers than any current approaches can do. The rapid integration of digital technologies and capabilities is one element of our 21st Century security strategy. Another example of this, in the third quarter, was Lockheed Martin Skunk Works team partnered with the U.S. Air Force test pilot school to conduct full-scale live flight tests of an adaptive technology that makes real-time adjustments to flight control algorithms, resulting in substantial time and cost savings.

And we do these kind of tech insertions on real, scalable combat platforms. Those that were implemented on mass can have theater-level effects on combat capability and thereby deterrents from great power armed conflict. The second element of 21st Century Security is designing resilience and antifragility into the defense industrial base. To this end, we signed a teaming agreement with our partner, General Dynamics, in the third quarter for the production of solid rocket motors.

The initial work will focus on producing SRMs for the GMLRS rocket and will start in 2025 at GD's facility in Camden, Arkansas. This third source of solid rocket motors will enable us to move more quickly to ramp production for critical defense capabilities and strengthen the defense supply chain. The third element of 21st Century security is the implementation of a global and regional approach to production and sustainment with our allies and partners. We have expanded international collaborations to enable indigenous military capability development in countries including Australia, Germany, Poland and India.

I recently had the opportunity to discuss the expansion of Lockheed Martin sustainment and production operations in India with Prime Minister Modi in July, including growing the capacity and the capabilities of our joint ventures with Tata that already manufacture C-130J empennages, F-16 wings and helicopter cabins in Hyderabad. Turning to the U.S. defense budget. We are currently in a continuing resolution that funds U.S.

government operations through December 20, 2024. For our part, our teammates across all of Lockheed Martin will thereby be able to continue to work diligently to deliver on our customer commitments. We'll also be dedicated to delivering strong financial performance through the remaining months of 2024 and to carry that momentum into the coming year as well. So now I'll turn it over to Jay.

Jesus Malave, Jr. -- *Chief Financial Officer*

Thanks, Jim, and good morning, everyone. Today, I'll provide an overview of our consolidated financials and operational highlights in the quarter before handing off to Maria, who will cover business area results, and I'll come back to discuss the

2024 outlook and some longer-term trending. Starting on Chart 4. Sales of $17.1 billion were up 1% year over year, led by MFC and RMS.

As expected, Aeronautics was down primarily due to delayed revenue recognition of approximately $700 million associated with the lapse in F-35 program funding as we continue to work through Lot 18 negotiations. Normalizing for that impact, consolidated sales would be up 5% year over year. Segment operating profit of $1.9 billion was up 3% year over year, with consolidated margins at a respectable 10.9%. Net profit adjustments in the quarter were higher than prior year and amounted to 20% of segment operating profit.

Cap earnings per share of $6.80 increased 1% year over year, driven by higher profit and lower share count, partially offset by higher interest expense, a higher tax rate and lower pension income. Turning to new business. We recorded over $22 billion of orders in the third quarter for a book-to-bill ratio of approximately 1.3, led by MFC with orders exceeding $8 billion and driving overall backlog to over $165 billion. Free cash flow was $2.1 billion in the quarter, aided by strong collections, including international program advances.

This brings our year-to-date total free cash flow to just over $4.8 billion, enabling another $700 million of independent research and development and capital expenditures in the quarter, further enhancing our leadership position in 21st Century security and integrated deterrence. Finally, we returned $1.7 billion of our free cash flow to shareholders via share repurchases and dividends. Turning to some key operational milestones and program highlights in the quarter. At Aeronautics, through the third quarter, we delivered 48 F-35s.

In addition, the team continues to make progress toward Tech Refresh 3 combat capability with incremental milestones on track for completion in the fourth quarter. Beyond the F-35, the C-130 franchise had a very successful quarter. The worldwide fleet of over 550 C-130J Super Hercules surpassed 3 million flight hours, demonstrating the platform's unmatched global reach and multi-mission versatility. We also delivered the first eight C130J-30 tactical air lifters to the Ohio Youngstown

Air Reserve station in July, and delivered the first J variant aircraft to longtime C-130 customer, New Zealand.

At RMS, the U.S. Marine Corps formally accepted the 23rd and final next-generation VH-92A presidential helicopter built by Sikorsky, marking a significant milestone for the company, whose aircraft have flown every U.S. president since 1957. This highly tailored solution, based on the proven S-92 helicopter meets the Marine Corps' unique and critical mission of supporting the commander in chief around the world.

And at Space, in September, NASA awarded Lockheed Martin a contract to design and build the next-generation Lightning Mapper instruments for the National Oceanic and Atmospheric Administration or NOAA's GeoXO program. The baseline contract is valued at approximately $300 million for two instruments with options for an additional two. This award follows on the GeoXO award we received in June to design and build the core NOAA spacecraft constellation. This continues our long tradition of designing and building weather and environmental spacecraft, including many earth observation instruments.

I'll stop here and hand it over to Maria to talk more about the business area of financials.

Maria Ricciardone -- *Vice President, Treasurer, and Investor Relations*

Thanks, Jay. Today, I'll discuss third quarter year-over-year results for the business areas. Starting with Aeronautics on Chart 5. Third quarter sales at ARRW declined 3% year over year, primarily driven by lower F-35 volume due to delays in the lot 18-19 contract negotiations that Jay previously mentioned, partially offsetting that headwind with higher volume at C-130 and the continued production ramp on the F-16 program.

Segment operating profit decreased 2%, with lower volume and unfavorable mix being partially offset by higher profit booking rate adjustments, mainly due to a favorable adjustment related to a legacy C-5 claim. With the F-35 surpassing 1,000 aircraft deliveries this quarter, I'd like to highlight a few other notable items from the other major platforms. More than 2,600 C-130 aircraft have been delivered to 63 nations, with more than 550 J variants delivered to 22 countries and Egypt set to become the 23rd. And the F-16 has delivered more than 4,600 aircraft to 27 countries over the past 50 years.

Turning to Missiles and Fire Control on Chart 6. MFC had another solid quarter with sales up 8% year over year, driven by production ramps on precision fires programs within the tactical and strike missile segment, primarily guided multiple launch rocket system, GMLRS and long-range anti-ship missile, LRASM. Segment operating profit increased 15% year over year due to the higher volume and the higher booking rate profit adjustments primarily at PAC-3, while margins were again solid at 14.4%. MFC's book-to-bill ratio in the quarter was a strong 2.7, leading to another record backlog now over $40 billion, driven by continued global demand.

In the quarter, the U.S. Army awarded the largest single year production contract for Javelin and related equipment worth $1.3 billion to the Javelin joint venture, as well as a $4 billion contract for GMLRS. The Air Force awarded an over $3 billion multiyear large lot procurement contract for JASSM and LRASM, providing a key antifragility measure to increase industry resilience and ensure operations can be ramped more quickly going forward. Shifting to Rotary and Mission Systems on Chart 7.

Sales increased 6% in the quarter to $4.4 billion, primarily driven by higher volume at integrated warfare systems and sensors on radar programs, as well as the Canadian Surface Combatant program. Sikorsky programs also saw higher volume led by CH-53K, Black Hawk and SEAHAWK. Operating profit was comparable to the prior year with higher volumes being offset by lower profit booking rate adjustments. Finally, at space on Chart 8, sales decreased slightly year over year.

The reduction was driven by lower volume at commercial civil space, primarily on the Orion program, partially offset by higher volume at strategic and missile defense on our strategic reentry programs. Operating profit increased 5% compared to Q3 2023, driven by favorable mix, partially offset by lower equity earnings from United

Launch Alliance, ULA. Recently, Space was awarded a contract to continue nearly 70 years of partnership between the U.S. Navy and Lockheed Martin through the Fleet Ballistic Missile FBM program, a key component of our nation's strategic deterrence.

Under the contract, we will provide Trident missile production support and reentry system hardware, as well as operations and maintenance to support the readiness and reliability of the missile systems. FBM will continue to be a growth driver for space for years to come. Now, I'll turn it back over to Jay to wrap up our prepared remarks.

Jesus Malave, Jr. -- *Chief Financial Officer*

Thanks, Maria. Turning to Chart 9 and our outlook for 2024. With one quarter remaining, we've shifted to approximate point estimates that reflect increased expectations for sales, segment operating profit, earnings per share and free cash flow. We have slightly reduced our share repurchase target for the year to approximately $3.7 billion, primarily due to the redeployment of capital to the Terran Orbital acquisition.

All told, we still expect to return greater than 100% of free cash flow to shareholders in 2024 via repurchases and dividends. Quickly stepping through the other metrics, we estimate sales of approximately $71.25 billion, reflecting growth of 5% over 2023 as our backlog continues to convert across the portfolio. We're also increasing the segment operating profit expectation driven by the higher sales volume to approximately $7.475 billion, and we continue to anticipate consolidated segment operating profit margins of approximately 10.5%. Moving to earnings per share.

We're increasing our forecast by $0.30 to -- from the prior midpoint to approximately $26.65. Primary drivers of the change are incremental profit of about $0.17, with other below-the-line items and taxes bringing in an additional $0.13. And lastly, on free cash flow. We now estimate approximately $6.2 billion for the year, up slightly from the prior midpoint while absorbing the unfavorable impact of the recent F-35 Lot 15 to 17 aircraft delivery settlement, which we estimate will be approximately $600 million in 2024 with expected recovery over the next few years.

Before I talk about trending, I'd like to reiterate a few key assumptions regarding our 2024 outlook. First, we expect F-35 Lot 18-19 to be awarded this year, maintaining program funding and continuity. We continue to make progress in negotiations toward a contract that secures our mutual goals of delivering advanced fifth-generation fighter capability to our services. Should the negotiation timeline extend beyond year-end, the financial impact would be one of timing.

We could see about 3% or $2 billion of our sales shift into 2025 along with associated impacts to profit and about $1 billion of free cash flow. The second key assumption is that we continue to anticipate $325 million of full year losses on the MSC classified program. That said, we will continue to assess facts and circumstances that could lead to the recognition of additional losses in the year. And third, this outlook does not assume any pension contribution in 2024.

All right. So let's shift now to the outlook beyond 2024, and I'll provide a multiyear framework on Chart 10. To start with, our record backlog position provides a strong foundation for sustained topline growth over the coming years. Looking at sales through the 2027 timeline, our baseline assumption still reflects a low single-digit compound annual growth rate off of the higher-than-expected sales expectation for 2024.

As I stated previously, the demand signals point to mid-single-digit growth through 2027, but the outlook remains tempered by our current assessment of the pace at which the value chain can meet the demand. Our confidence in a mid-single-digit growth rate will grow as clarity increases on new business campaigns, funding stability and capacity acceleration of the production systems. On segment margins, we anticipate improvement of 10 to 20 basis points per year based on our continued focus on operational excellence and program performance, combined with program derisking. So in other words, steady improvement to a more normal range of around 11% ROS by 2027.

Thinking about EPS trends over the three-year horizon, while we anticipate year-over-year benefits from higher segment operating profit and a lower share count, these benefits will be diluted by continued FAS/CAS pension headwinds, particularly in 2025, and higher effective tax rates from a change in certain deductions based on current law. For free cash flow, we continue to target a low single-digit CAGR through 2027, based on delivering cumulative working capital reductions that partially offset known pension contribution headwinds. While offsetting the pension contributions dollar-for-dollar in each year with working capital reductions alone is a challenge, we have confidence that we could fully offset the headwinds and improve the growth rate to mid-single digits through the combination of organic and inorganic cash generation initiatives. We'll provide more details in January as we show our plans with better visibility to 2024 pension asset returns, post-election policy and interest rates.

Overall, this baseline multiyear framework remains consistent to the investment thesis we've discussed previously. We still expect single digit -- low single-digit free cash flow growth over the next three years supplemented by share repurchases to deliver mid-single-digit free cash flow per share return over the same horizon with upside potential. So in summary, on Chart 11, performance year-to-date gives us confidence to raise the full year outlook for 2024 and in our ability to deliver solid sales and free cash flow growth over the next few years. At the same time, we continue to invest in digital transformation capabilities and innovative technologies that will help differentiate our mission solutions for customers.

And we remain focused on operational execution to deliver on our commitments and long-term value for our customers and shareholders alike. With that, Steve, let's open up the call for Q&A.

Questions & Answers:

Operator

[Operator instructions] Our first question will come from the line of Ron Epstein of Bank of America. Please go ahead.

Ronald Epstein -- *Analyst*

Thank you. Good morning, Jim and Jay. Maybe circling back on some of your prepared comments, Jim. When we think about the current situation in kind of the tactical fighter world, where it seems the Air Force is giving a rethink to NGAD the system, what it should be.

You mentioned some of the work you guys are doing on AI and drones. If you look at how Increment 1 of CCA was awarded to maybe nonusual companies, right, and kind of new players, how are you thinking about Increment 2? And what the interplay between man and unmanned systems, tactical fighters, drones? I mean, does it change how you think about going forward, what NGAD could be, what it means for Lockheed?

James D. Taiclet, Jr. -- *Chair, President, and Chief Executive Officer*

Sure, Ron. We're preserving our optionality based on what the U.S. government and service is determined to be their strategy for tactical fighter deployment over the next 20, 30 years. And so, part of that strategy is having our Skunk Works continue to develop technologies that could be implemented for a generation sixth-generation tactical aircraft, it's a step function above what the F-22 and F-35 can do today.

So we are investing time, talent and energy into that in Skunk Works, which is in this setting, all we can really say about that. The second piece of it, though, is the crewed, uncrewed teaming, element of whether it's NGAD or F-35 plus a CCA, if you will, or multiple CCAs. We're already working that out too. We've developed a pod that will enable the F-35 to control even today, CCAs, if you will.

And we have a flight control system and a communication system in development that will enable that as well. And that could be converted, I think, to F-22 as well. So we are working both of those elements. But the key part of it is you still got to have volume, and I'm an ex Air Force pilot myself.

We have to be able to meet the J-20, which is the Chinese combat tactical aircraft, fifth generation as well, with enough numbers in the Pacific, or at least field enough numbers of -- it's F-35 and F-22 now is the only really competitive jets against the J-20 1-to-1. We have to field enough of those aircraft in a short enough time frame to maintain an effective deterrent in the Pacific. And the Russians are also developing fifth-generation aircraft as well. So the threat will emerge in Europe too.

So we got to have volume to start with on fifth gen. We need to be able to bring autonomy in the CCA concept into fifth gen and sixth gen, if there is one. So we're keeping all of those avenues open and we're investing really in all three, again, to preserve the optionality for the defense industrial base and our partners to be able to deliver on which of those strategies or what combination that the U.S. government decides to pursue.

Jesus Malave, Jr. -- *Chief Financial Officer*

And I'll just add, Ron, just in our outlook, the multiyear outlook that I gave you, that accounts for and assumes that we'll have incremental -- significantly incremental investment in areas such as autonomy, AI, crewed uncrewed teaming and in control systems. So we feel that our investment is going to the right places as these platforms and systems evolve.

James D. Taiclet, Jr. -- *Chair, President, and Chief Executive Officer*

Yes. And as far as Increment 2 on the CCA, Ron, the way it's been described to us is Increment 1 was proof of concept, more of an experimental kind of approach. Increment 2 is going to be -- targeted to be fieldable combat-ready, scalable design and production of the uncrewed teaming half of the system. So we are fully dedicated to that.

Like I said, we have Skunk Works working on both the parent and the child, if you will, when it comes to all CCA concepts and Increment 2 is going to be really where we're, I think, most competitive because we can show that we can control these vehicles with today's technology already at scale. So we're going to be eager to compete for that.

Operator

Our next question comes from the line of Sheila Kahyaoglu of Jefferies. Please go ahead.

Sheila Kahyaoglu -- *Analyst*

Good morning, Jim and Jay. Jay, maybe one for you. Maybe if we could go to Slide 10. I appreciate you giving the long-term -- medium-term targets for low single-digit revenue growth.

Can you maybe rank order the segment with MFC leading. I think you've talked about mid-single-digit growth of $750 million there. And what other segments follow. What campaigns get you to that mid-single-digit opportunity for topline growth?

Jesus Malave, Jr. -- *Chief Financial Officer*

Yes, sure. Thank you, Sheila. You kind of nailed it in your question. The leader of growth will be MFC over this time period through 2027.

And I would put them at the high single-digit clip very comfortably based on the backlog that they have today and the visibility we have to incremental orders. The other three business areas in this framework, at least starting off with this low single digit, the rest of them will be in this low single-digit framework pretty kind of consistently. Now, how do we go from a low single digit to a high single digit? Quite frankly, a lot of that opportunity is already sitting in the backlog. If the system can convert, and I'd say the entire enterprise, so it's not just supply chain, it's our operations as well, can convert on that backlog quicker, and we did see this in 2024.

If you recall, we came into the year thinking that we would grow low single digit, and we converted that and changed it to 5% growth here in 2024. So under the same framework, it is a step change from where we are in 2024, but we demonstrated that we can improve throughout the year. So as that visibility gets better, that would enable us to go from a low single digit to a mid-single digit. Yes, there are other campaigns and some of those are classified.

If you go back a few years, we talked about the four pillars of growth, new awards was an element of that, as well as classified growth. New awards, we got one of those, which is the next-generation interceptor. So that's already a win. The other one would be in our -- really our classified portfolio, and those are campaigns that will happen over the next I would say, six to 18 months.

But as I mentioned -- and I mentioned in my prepared remarks, the foundation for the growth to mid-single digit is pretty solid. It's -- at least in the short term, is more of a conversion issue.

Operator

Our next question comes from the line of Noah Poponak of Goldman Sachs. Please go ahead.

Noah Poponak -- *Analyst*

Hey, good morning, everyone. Jay, I was hoping to get some more help from you on the MFC margin. Do the last two quarters suggest the operating performance is better? Or is it just that the loss accrual is loaded into the fourth quarter? And I guess, remind me why the accounting is that way as opposed to taking it all when you know you have it? And I don't know if you could talk about how you expect that to progress through '25. But I guess just fundamentally, like is the new classified program or the overall operating performance in the segment, is it improving, or worsening? Or is it just the volatility is accounting?

Jesus Malave, Jr. -- *Chief Financial Officer*

Yes. I would say the volatility is accounting. I would say in this year-to-date, their performance is better than prior year. We've seen an improvement.

When you put aside the losses related to the classified program, their profit adjustments year-to-date have shown growth, and they're performing, I think, pretty well in the base. So this was a good quarter, as an example, we didn't really record any losses related to the classified program, and we delivered 14.4% margins in the quarter, and that's essentially where they're operating this year ex the losses. You got it right as far as timing, we would expect -- we recorded $100 million in the first quarter. So that would say that about $225 million were record -- or what's included in our guidance for the fourth quarter.

As far as your question on the accounting, it's a good question. It really depends on the facts and circumstances and the probability. We have to make an assessment and a probability of the exercise of certain options. And so, the visibility is clear as things are more short term and the visibility gets a little bit more murkier as you go out a little bit further.

So you have to make assessments of similar facts such as customer interactions that we have, their intentions, visibility to funding over a longer period of time, the performance of the system is one and how we're doing from a testing perspective. So all of these factors taken together have to go into the assessment to determine if and when we record a forward loss. And so, that's where we are. As far as 2025, a baseline assumption would be that we -- you go from $325 million to anywhere between, say, $250 million to $300 million in losses in 2025, assuming a one per year type of framework.

As I mentioned in my prepared remarks, we have to take another look at whether or not there will be additional losses that have to be recognized early on to your question. And again, that's a really quarter-to-quarter assessment that we have to make.

Operator

Our next question comes from the line of Myles Walton of Wolfe Research. Please go ahead.

Myles Walton -- *Analyst*

Thanks. Good morning. Jim, just a follow-up first on CCA. Are you currently competing on the autonomy portion of Increment 1? And is that what gives you a better feeling for where Increment 2 Lockheed could be? And then, Jay, could you just update us on the ARRW classified contract? I think you booked another charge in the quarter.

I'm just curious if there's any line of sight to when you're sort of back on the right side of that program?

James D. Taiclet, Jr. -- *Chair, President, and Chief Executive Officer*

So Myles, based on the classification of the CCA program, especially longer term, I can't refer to it directly as far as who's competing for what element of it. But what I can tell you is, echoing Jay, we are investing heavily in autonomy, AI, 5G connectivity distributed remote node cloud, those kinds of things that enable a CCA type device to be effective. Now, we're testing in open air, I'll call it, these kind of technologies with existing platforms, which is another use case, but it's one we could talk about. So you've already seen potentially that we've got an autonomous Black Hawk up and running, full capability helicopter that can do missions with you sitting on your couch in your living room, programming the mission in and changing it in a flight on your iPad, right? This is scalable, big hardware, big effect platforms that can be elevated in their capability with autonomy, AI, etc.

We've also done the same thing within F-16 with the Air Force that shows that we can actually dog fight an F-16 without a pilot in it and be effective. So these technologies if you -- one could probably surmise if you can apply them to legacy hardware at that level of scale that you can certainly apply them to hardware that is a smaller scale and uncrewed as well.

Jesus Malave, Jr. -- *Chief Financial Officer*

On the question on the classified program at Aeronautics, we did realize incremental risk in the quarter. In the press release, we had about $80 million there. Year-to-date, we're about $145 million. So we have, obviously, realized some incremental earnings that have converted to incremental losses.

It's a classified program, so I can't really talk too much about what it is. But what I can tell you is that we are essentially meeting our scheduled objectives, albeit at a higher cost. And I would say the cost is really a function of the aggressive pricing that we bid originally. And so, as we recalibrate, we are kind of keeping an eye on our cost.

We'll do continuous reviews, as you would expect us to do. And we'll have another review here in November with the team so we can go back and understand and pressure test the risk management plan. But it's not just an oversight function. I think it's incumbent upon us as a leadership team to not only provide oversight, but also make sure that we're providing the tools and the resources to make sure they're successful.

This program will be managed as a whole team, and we're all in it together. And as I mentioned on the cost, it's -- again, it was bid aggressively. Jim and I have been pretty firm over the past few years that really reining in those practices, and we really haven't seen any of those since that time. And so, we've got a contractual commitment that we've got to meet, and we will meet, and we'll manage this program as best as we possibly can.

And I think part of what we're trying to do is change the trajectory, drive toward better outcomes, while at the same time deliver the mission capability that we've contracted to give our customer.

James D. Taiclet, Jr. -- *Chair, President, and Chief Executive Officer*

And Myles, I can speak to one command and control system that we have demonstrated because it was, again, an open space. Recently, the Air Force put on its -- Air and Space Force put on its sort of annual gathering, if you will, outside of

Washington, D.C. And in our -- it's a bit of a trade show set up, so it was public. We were demonstrating to our customers there in open space, again, not classified, our ability to use that iPad technology to control eight CCAs off an F-35 flight control and comm systems.

So we've already shown that out in the open. But again, that's technology we've been working on for literally a decade or two at Skunk Works.

Operator

Our next question comes from the line of Doug Harned of Bernstein. Please go ahead.

Douglas Harned -- *Analyst*

Hi. Good morning. Thank you. On F-35, you said that you expect the Lot -- you don't know for sure, but the Lot 18 and 19 negotiations hopefully will be completed in Q4, Tech Refresh 3 are 95% through.

What I'm trying to understand are really two things. A lot of times, you can have 5% left on something. We've -- this has been going on a long time getting Tech Refresh 3 done. How do we get confident that you're going to get there in Q4? And does this have an interplay with the Lot 18 and 19 negotiations? Because if I can just ask separately, we're trying to understand what the cash implications are in 2025 if you get all this done or perhaps if it slips?

James D. Taiclet, Jr. -- *Chair, President, and Chief Executive Officer*

So Doug, it's Jim. I'll start off. I want to lay out the fundamental framework of the F-35 program. And then, I'll turn it over to Jay for some of the cash flow impacts and expectations and the financial results of that.

So first of all, just to reiterate, there's a very important distinction between the F-35 production system and how we book revenue and profit on the production system versus the event of final aircraft delivery, which is actually a fairly small proportion of the revenue and profit that an aircraft -- F-35 aircraft generates for industry, right? So that's important distinction. Now, there's two current program conditions that you touched on that affect both of these outcomes, right? So what I want to also emphasize is both of the outcomes are not necessarily economic value outcomes. They are timing-related outcomes. So there's a time value money aspect of it, but the economic value of an F-35 that's delivered out of the system is not much affected, if you will, by these two issues, but the timing is affected.

So let me just start with TR-3 software finalization. So that's one of the conditions that we're managing through with the F-35 program and how that affects the delivery schedule. So about a year and a half years ago, we had conversations, and I did personally about a Release 1 and a Release 2 concept. The government calls that truncation, but that's really what the concept is like we would do.

And tech or telecom, we're going to do a release one of software. We're going to work through the discovery of that. And then, when that is ready, we will be able to have an initial product. And the initial product is TR-3 which is capable of doing unit standup, facing operations and training at operating Air Force and Navy and Marine bases, as well as our allies with the TR-3, I'll call it, again, release one software in it, you can fly the jet, you can practice basic and advanced fighter maneuvers.

You can deal with -- develop tactics in your squadron and you can train your maintainers on how to do this new aircraft. So if you're swapping out F-15 squadron and two F-35 squadron and the maintainers actually need to get their hands on the planes just as much as the pilots do, and then make sure all the tooling and everything is working for them. So Release 1 is what's being delivered now. That was the 48 in the third quarter.

They all have Release 1, you can fly the jet. What it doesn't have are some of those incremental software validations that show that all combat systems and all weapons will be able to be effectively deployed because the testing program and flight test and bench test has been completed and we get a certification of reliability for that weapon, for example. There are a lot of test points there. And those test points are going to be developed, not just in the fourth quarter, but they're going to be developed over the course of 2025 as well, because when I say a weapon, is it an AMRAAM, is it an AIM-9, what weapon are we talking about? There's literally dozens of weapons and there are multiple test points on things like distributed aperture after system, etc.

So this is a complex path to what I'll call Release 2 that's the full up combat capability. And as we work through those capability certifications individually, there'll be diminishing cash withholds along the way as those flight tests are completed and the certifications happen. Jay can kind of aggregate that for you in a minute. But that's how this part of the program works on a fundamental basis.

So we feel that our projection of in 2024, 90 to 110 deliveries out of that process in to Release 1. In 2025 and beyond, 180 deliveries a year of F-35. Now, those are going to be a mix of those coming off the line, brand new and those that are parked. So the 180s will be a mix of those.

We're working on a weekly basis right now to prioritize specific aircraft deliveries, literally one at a time. There's one go to the Dutch Air Force first and the marine second. And whenever we reprioritize, which we're doing by the week based on the needs of the customer base, we need to change bill of materials. We'll do other things and parked aircraft may remain when a new aircraft may come right out to the fleet.

So the complexity of this TR-3 software definitization and release is going to take some time, but we will be able to deliver a mix of aircraft above the 156 production rate for the next few years because we'll be mixing based on what the customer is looking for. So that's one of the issues that you talked about. The other issue is actually, I would consider it completely unrelated from this. And that issue is any lot negotiation for a program such as this and at the scale that this program is at, so we are on a lot contractual negotiation with the U.S.

government. And by we, I mean, our major suppliers with us and all the way down to our smaller suppliers. Now, currently, that lot negotiation is 18 and 19, and it's not completed yet. And under the federal acquisition regulation, if the government does not have a formal agreement with the supplier completed, the government cannot pay for either work being done under that undefinitized contract.

In fact, it's not completed contract to be clear, or pay for a product that is actually completed either. So that is where we as an industry then have to prioritize keeping our production system on pace, while the government by law, cannot pay us. So it's essential for the health of the lower-tier suppliers that we do that. We all kind of step up and do it as an industry.

But the prime and major subs cannot book our revenue and profit even though we're expending cost. And that's where the cash impact of the negotiation comes in. We're not going to stop the production line because it would be unwise, I'll say, until the formal agreement is signed, we are going to keep it going until the formal agreement is signed, at which time these cash payments will be releasable. So those are the two issues we're facing.

I want to say one of the things, Doug, why you've asked about this topic of F-35. This isn't just a Lockheed Martin commitment to make this program a success. It's an industrywide commitment, and I would also add a government commitment to make it a success. I'll just give you a few of the things that we've been part of and led over the last, I'd say, two, three months.

We held a CEO Summit of the top five industry partners in Fort Worth at the factory where we took an entire day determining how we could integrate our systems, IT systems, test systems, our processes, how we develop subassemblies and other items that go on the jet and integrate them with the jet -- those processes and personnel, moving more people between companies on either a temporary or almost semipermanent basis to make sure we've got the best talent working on every problem. So that's one thing that we've done. That same CEO level team followed up with the government and the meeting there was chaired by the chief of staff of the Air Force, the joint program office leader was there, General Schmidt, the

U.S. Navy and Marines had their air bosses there and that was in the Pentagon to lay out a similar integration framework with U.S.

government systems, processes and personnel that's appropriate under law and regulation. And then, we add another CEO update with U.S. senior government officials and this was just two weeks ago and seven partner nation customer officials in Washington to trade status of what we were all doing together. And in two more weeks, I'm bringing my executive team at Lockheed Martin across all the businesses and functions.

We're going to gather in Fort Worth to make sure that every resource, every operational practice, every supply chain element that we can bring from across the company and certainly all the technical talent is devoted to this program. That is what we are doing to make sure this is a success. And the last thing I'll say there is that the customers need and want this aircraft. That was the opinion of the U.S.

government in our meeting with the chief. There are six customers since 2020, I think these are all the competitions that we're in actually that chose the F-35 that weren't in the original partner group or the original order team. They were Switzerland, Finland, Germany, Canada, the Czech Republic and Greece. And then, follow-ons from partners that already have the aircraft in operation also were added Japan, Netherlands, Republic of Korea and Israel.

So the demand for the aircraft and actually essential need for the aircraft is there. Industry is getting together with the government, and I think in ways that we haven't done before to really make this a success. And we've got to work our way through the lot negotiation, which is, again, it's a timing issue as far as payments, and we got to work our way through TR-3 integration, which is a technical issue. But literally, it's an all hands on deck, not just an industry, but I'd say in government too to get this all done.

Jay, any addition to this?

Jesus Malave, Jr. -- *Chief Financial Officer*

Yes. Let me just add to -- Doug, I'll try to give you a little bit of color on the cash impact to your question. As Jim mentioned, what we're looking at here is an output estimate of about 180 aircraft deliveries per year over the next three-plus years. So effectively, what will happen is cash collections will smooth out over this period of time.

This is important to point out that that remains consistent with the low single-digit free cash flow growth framework that we've articulated today and previously. Just maybe a little bit on 2024. As I mentioned in my prepared remarks, we estimated the impact this year of unfavorable impact of about $600 million. That consists of two factors.

No. 1, less deliveries than the 156 rate. So we'll deliver in that range of 100 aircraft or so. So there's going to be less aircraft delivered and so there's an impact for cash flow from that.

The second impact is the impact of the withholds. While we will release some of those withholds this year based on completion of milestones, there will still be some that carry over into next year and a little bit into 2026. Now, in 2024, that unfavorable impact was $600 million, that was entirely offset by other working capital efficiencies in the rest of the portfolio of about $600 million, mostly through advances that we've seen there. And so, the net impact and then what enabled us to deliver the same free cash flow and, in fact, better than the midpoint that we had originally guided to was that offset.

As you go to 2025, we'll deliver more aircraft. And so, we will see the benefit of having delivered more aircraft and we will also see the benefit of having incremental withholds released. I would quantify that today at around $300 million to $400 million. And then, that will then continue to flow in '26 and beyond.

And hopefully, that helps.

Operator

Our next question will come from the line of Rich Safran of Seaport Research Partners. Please go ahead.

Richard Safran -- *Analyst*

Jim, Jay, Maria, good morning. How are you? Jay, on your opening remarks on pension, I think in the past, you made some comments about possibly reducing some out-year pension headwinds. So I want to know if you could maybe update us on what your thinking is there, if you still intend to reduce the headwinds after 2025 using debt or cash? And if so, what the timing of that might be?

Jesus Malave, Jr. -- *Chief Financial Officer*

Yes. Thanks, Rich. Essentially, in my prepared remarks, I talked about the inorganic and organic means of managing this pension headwind. The inorganic would essentially be the issuance of debt as a primary enabler to be able to do that.

That's still on the table. As I said on my prepared remarks that we're going to go through between here and the end of the year and finalize our plans based on various factors. And as you would expect, we're trying to exhaust all of the opportunities on an organic basis. So what can we bring out in working capital over this period of time to be able to offset as much as possible.

To the extent that we can't, we do have the ability to go on financing to take out. I think the key takeaway there is that I remain confident that we'll be able to do that through the combination of organic working capital reduction, as well as some level of inorganic mostly on the debt side.

Operator

Our next question will come from the line of David Strauss of Barclays. Please go ahead.

David E. Strauss -- *Analyst*

Good morning. Thanks for taking the question. Just wanted to clarify on the longer-term framework relative to what you had said previously on 2025. I think you had talked about a 2025 growth in line with 2024, which is at 5%.

So is that still the case or not? I know this is out through 2027. If you could just touch on that. And then, maybe, Jim, if you could touch on progress on the solid rocket motor side of things in terms of how that's going? Obviously, you announced this partnership with General Dynamics during the quarter as well.

Jesus Malave, Jr. -- *Chief Financial Officer*

Just on the framework as it relates to 2025. 2025 is very consistent with the multiyear framework that's on that chart, which is our starting point here is a low single-digit growth framework off of the 2024 number. And again, it's -- we're looking at MFC being the driver there, kind of starting off at a high single-digit rate. And the other business areas being either flat, slightly flat or on the -- up in the low single digits.

And so, that's really our starting point. Again, we'll give a lot more color in January as we finalize these plans. But I'd say '25 is consistent with what we're saying in the multiyear framework. I guess just a reminder, David, I think it applies to '25 as it does in the three-year framework.

When we went into '24, we started at low single digit. We upgraded it to mid-single digit. I think as our visibility improves, as I mentioned in my prepared remarks, there's still the case where we could be mid-single digits in 2025, but we need to see it come through. We need to see the production and operating systems be able to consistently grow at a mid-single-digit CAGR, which is a lot easier said than done in the environment that we've been living under over the past few years.

James D. Taiclet, Jr. -- *Chair, President, and Chief Executive Officer*

And David, as far as the solid rocket motor industrial base, I think this is a really positive example of how industry does come together in the service of national security, right? So first of all, I've just -- circulate this question with our chief operating officer, Frank St. John, who's outstanding on Northrop Grumman and Aerojet Rocketdyne, which is now managed by L3Harris. My question to Frank is, are these companies putting all the resources that we think they could be putting into their solid rocket motor operations, quality, delivery schedule, personnel, etc., and open to us collaborating with them to make sure those deliveries happen? And his answer to me was yes. So our industry -- existing industry partners are stepping up to try to meet the elevated demand and investing to do that.

So that's great. But we still need a third source from, I think, an antifragility perspective as we call it. And that is a partnership with General Dynamics, and that started off at the CEO level, and we figured out there was complementary capabilities between General Dynamics and Lockheed Martin, where we could actually have the design done at Lockheed Martin for the SRM and General Dynamics had the ability, the facilities and the kind of production operations and personnel that could actually produce it. And so, we are working together on that.

We'll have to get that new solid rocket motor certified. It will be, again, Lockheed Martin IP design, if you will, and General Dynamics is standing up simultaneously the ability to produce them at rate. We have to do a few test articles next year in 2025. There'll be further testing that's done by the services to get their certification, the military services, in 2026 and should be producing at rate we hope by 2027.

And that will add a third supplier for the national defense industrial base, not just for Lockheed Martin, but for others as well and really strengthen our ability to produce these systems.

Operator

Our next question comes from the line of Jason Gursky of Citi. Please go ahead.

Jason Gursky -- *Analyst*

Hey. Good morning, everybody. Thanks for taking the question. Jay, I just want to really, really pound the table -- not pound the table, beat a dead horse here, I should say and make sure I fully understand the multiyear outlook here.

So what you're saying is low single digits as the baseline you can outperform that into the mid-single digits so long as the supply chain and the production system kind of maybe performs, as well as it did this year relative to expectations. What's the blue sky scenario here? Let's say that the supply chain all stamps back into place, the production system is working well. You are then in this context, producing mid-single-digit growth. But I would imagine that you've got a pipeline of additional opportunities out there.

Is there a blue sky scenario where you're actually doing better than mid-single digit?

Jesus Malave, Jr. -- *Chief Financial Officer*

It's a great question, Jason. Let me just first say in terms of the framework. I mean, obviously, over 2025, there's better visibility than there would be for 2027. So the outlook feels good.

And so, my comment in terms of confidence as far as the demand signal being able to drive to a mid-single-digit growth rate in '25 is heightened by the better visibility. If you think about what we've seen in over -- and I'll take '24 as an example in answer to your question, given what we've seen the demand cycle would have also enabled a higher growth rate than 5% in 2024. So I think the answer to your question in the short term is yes. I don't know that I could sit there and say that a multiyear framework would be a high single-digit number.

But I think that given all the right circumstances, you could definitely see a year that could deliver high single digit. But again, we're starting from low, we got to get to mid, we get to mid and then we can talk about anything beyond that. First things first.

Operator

Our next question will come from the line of Rob Stallard of Vertical Research. Please go ahead.

Robert Stallard -- *Analyst*

Thanks so much. Good morning. I'll keep it brief. Jay, a question on the cash situation.

Can you give us an idea of just how much working capital benefit you have to get through in the next couple of years to offset pension? And just how risky is this prediction?

Jesus Malave, Jr. -- *Chief Financial Officer*

Well, Rob, the way I would characterize it is just quick math, one day equates to about $200 million of free cash flow. And I would say through '25 and '26, we would have to do at least two days of working capital improvement. So is it possible? Yes, in both years, so you'd have to do cumulatively four days through '25 and '26. It's possible, but it's a stretch.

And that's why I believe kind of a better, higher confidence plan would be to combine the initiatives on working capital with some of potential inorganic capabilities or cash generation with the ability to really draw that back down over a period of time with continued cash flow growth. And so, I think it's -- what I would say next year is that we've probably got two days that are not yet solution between now and the end of the year that we got to go figure out. And to the extent that we can and that relates to 2025, will that be -- the inorganic becomes the gap filler.

Maria Ricciardone -- *Vice President, Treasurer, and Investor Relations*

All right. Steve, this is Maria. I think we've come to the top of the hour. So I'll turn it back over to Jim for some final thoughts.

James D. Taiclet, Jr. -- *Chair, President, and Chief Executive Officer*

Sure. Thanks, Maria. Look, I just want to recognize the employees across Lockheed Martin, their dedication, their resilience and they consistently are innovating now in ways I think we never have and cooperated across businesses and functions before like we never have. So I want to really make sure that they're recognized this afternoon.

We want to make sure that our allies and our country can defend itself and therefore, deter any aggression against us, and that's what they think they're doing and what they are doing every day. So I want to thank them and thank you for joining us all. I look forward to connecting you again for our Q4 call in January. So we'll see you then, Steve.

That concludes the call for today. Thanks, everybody.

Operator

[Operator signoff]

Duration: 0 minutes

Call participants:

Maria Ricciardone -- *Vice President, Treasurer, and Investor Relations*

James D. Taiclet, Jr. -- *Chair, President, and Chief Executive Officer*

Jesus Malave, Jr. -- *Chief Financial Officer*

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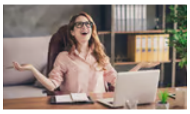

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