Lockheed Martin (LMT) Q1 2024 Earnings Call Transcript

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LMT earnings call for the period ending March 31, 2024.

Lockheed Martin (LMT 4.30%)

Q1 2024 Earnings Call

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Contents:

Prepared Remarks:

Operator

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

Maria Ricciardone -- *Vice President, Investor Relations*

Thank you, Lois, and good morning. I'd like to welcome everyone to our first 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 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'd like to turn the call over to Jim.

Jim Taiclet -- *Chairman, President, and Chief Executive Officer*

Thanks, Maria. Good morning, everyone, and thank you for joining us on our first quarter 2024 earnings call. I'd like to begin today's discussion with a brief overview of our quarterly financial results, the state of the U.S. Department of Defense budget, status updates on some key programs and recent advancements made to support our vision of 21st Century Security that integrates the latest digital technologies.

Then Jay and Maria will provide more detailed information about quarterly highlights and financials. The increasingly unstable geopolitical environment in the world today makes it essential for industry and government to strengthen our nation's capabilities to deter and defend against further aggressive behavior against the U.S. and our allies. We here at Lockheed Martin are continuing to invest heavily to improve our design and production capabilities while actively partnering with leading companies inside and outside the A&D industry to incorporate a wide range of technologies.

As a result, we delivered robust revenue growth across the company. And we maintained a robust backlog of $159 billion, reflecting alignment between our advanced technology solutions and our customers' key missions and priorities. These first quarter results reinforce our confidence in our ability to achieve the full year financial expectations we shared in the most recent earnings call. Moreover, the approved FY '24 defense budget reflected many positives for Lockheed Martin, consistent with National Defense Strategy priorities, too.

Highlights include robust funding for munitions multiyear procurement, continued investment in hypersonics and classified activities, and ongoing support for programs such as Black Hawk, CH-53K heavy-lift helicopter, the fleet ballistic missile, C-130, and F-35. There are also additions to the original budget submission, including F-35 aircraft, C-130s, and combat rescue helicopters. The initial budget request for FY '25, while still very early in the process, continued support of many of these same major programs, including the F-35, CH-53K, UH-60M and others in addition to emphasis on advanced munitions programs such as JASSM and LRASM, PrSM, Javelin, GMLRS and PAC-3 as well as hypersonic conventional prompt strike and the long-range hypersonic weapon. In addition to that, the next-generation interceptor is getting support, which I'll address more in a moment.

In this week, funding of $95 billion for Ukraine, Israel, and Indo-Pacific security supplementals passed the House and is currently under consideration in the Senate. We expect FY '25 presidential budget requests and additive supplemental funding will provide a strong underpinning for future growth over the next several years for our company, giving us further confidence in our long-range plan. While demand for these key programs remains elevated, it is also essential that our program performance in terms of quality, safety, cost and schedule gets and stays at the highest level. On our most significant programs, I, Jay and my senior executive team are personally and directly involved.

On the F-35, we remain focused on program execution in terms of concurrent development, production and sustainment. And we are bringing all relevant resources across our company and collaborating closely with our customers and suppliers to fully implement the TR-3 capabilities that everybody is looking forward to getting. These capabilities based on the new core processor, data storage unit and pilot display will ensure that the F-35 is not only the most capable and effective fighter aircraft in the world, but that they will also further advance its abilities to act as the air domain quarterback of Joint All Domain Operations for the U.S. and its allies.

We're encouraged by the solid progress made over the last few months toward resuming deliveries, including improvement in aircraft mission system capabilities and system stability as we advance from prior software versions toward the combat training capable configuration. Flight testing of this configuration is now underway, and we're on a path we expect to be on with regard to maturing the system with approximately 95% of TR-3 capabilities in this flight test program. The test results to date support our expected timeline of delivering the first TR-3 combat training-capable aircraft in the third quarter and then transition to a fully combat-capable aircraft in 2025. As planned, there will be continual software updates to support further capability insertions over the Block 4 program and beyond.

While there were no final deliveries of F-35 jets in the first quarter, we're maintaining our production rate and continue to expect an aircraft delivery range for 2024 between 75 and 110, which requires timely receipt of the necessary hardware from TR-3 suppliers along the way. The F-35's advanced combat and interoperability capabilities continue to create strong demand for the aircraft internationally, too. In the quarter, the Czech Republic became the 18th nation to join the F-35 global team with a signed letter of offer and acceptance, making it official its intent to procure 24 F-35s. In addition, the U.S.

State Department approved a potential foreign military sale to Greece for up to 40 F-35s. And Singapore announced its intent to purchase 8 F-35As to complement the 12 F-35Bs to which it has already previously committed. Also in the lower air domain, while we're disappointed in the cancellation of the future attack reconnaissance aircraft program, or FARA, Sikorsky remains committed to delivering innovative and reliable aviation capabilities to our domestic and global customers. With a strong foundation of more than $20 billion in backlog, bolstered by expected and funded growth in the heavy lift CH-53K helicopter program, Sikorsky's multiyear outlook is stable.

We're also encouraged by the Army's renewed commitment to Black Hawk production and modernization as well as our ability to address mission gaps with capability upgrades that leverage Lockheed Martin's broad portfolio of solutions in the lower air domain, things such as autonomy, AI, etc. Turning now to missile defense missions which, given recent world events, are becoming more critical than ever. We continue to lead the industry. Last week, the Missile Defense Agency, or MDA, selected Lockheed Martin to deliver the new homeland missile defense capability for the United States, which is called the next-generation interceptor or NGI.

As the MDA's NGI prime contractor, Lockheed Martin will provide the most modern, reliable, and technically advanced Interceptor in the history of this system. This program was a 1LMX, that's our digital transformation born digital program, meaning we embrace model-based engineering, digital tools, processes, and technologies from the very, very start of this program. Now as it continues on its path to the critical design review, integration with broader weapons system and flight tests, I'm proud of the Lockheed Martin team that enabled all of this. We were MDA's early down select before it was even on their schedule because we're so far in front to get this essential homeland defense capability off to a fast start.

Earlier this quarter, the long-range discrimination radar, or LRDR, completed final acceptance and was officially handed over to the Missile Defense Agency in preparation for an operational capability baseline decision. And what that means is final transition to active service for that radar to help defend the country. The LRDR is a cutting-edge national asset providing the benefits of both low- and high-frequency radars to search, track and discriminate incoming missiles with an open system approach, enabling the customer to add incremental capabilities such as hypersonic defense. This is located up in Alaska and the prime location where we can sense early what any attack might look like and respond to it.

What that really does though is create an elevated deterrent to any kind of attack like that. So it's really great that LRDR about ready to go online. Now both NGI and LRDR will be critical elements within the overall Homeland Defense mission. And they're going to be integrated into the broader defense architecture with a battle management system that we call command control battle management and communications or as the military calls it C2BMC.

So that's the system that's going to be used to integrate the radars, the missiles and allow us to defend the country. In April, Lockheed Martin was selected for a potential 10-year, $4 billion follow-on C2BMC next-generation contract with the MDA, demonstrating, again, our leadership position in battle management systems for homeland defense. Under this contract, we'll continue to modernize and expand the system's capabilities to enhance global integration, improve space domain awareness and optimize sensor connectivity and data fusion to levels never done before, all of which will create the most complete picture of these incoming threats as I just spoke about a minute ago. Separately, we also continue to advance our 21st Century Security solution through collaboration with strategic commercial partners across the tech, telecom, microprocessor, and other industries to support the national defense.

Citing just one example, we announced Lockheed Martin will work with Intel to support the simulated transition for advanced microelectronics packaging or staff program for the Office of the Undersecretary of Defense for Research and Engineering. This chip SAC-related collaboration will provide a revolutionary leap in defense systems' capabilities using high-performance, U.S.-built semiconductors. Over the next 18 months, we'll integrate our latest sensor open system architecture technology with Intel semiconductors with the intent to ultimately implement, test and complete production through the U.S. Navy's Lockheed Martin MH-60 Romeo helicopter program.

I'll now turn it over to Jay for more highlights and some additional commentary on our financial results. Jay?

Jay Malave -- *Chief Financial Officer*

Thanks, Jim. I'll cover the consolidated results and touch on some additional highlights before handing it off to Maria, who will discuss the quarterly financials by business area. And then I'll come back to discuss the outlook and close out the remarks. Starting with Chart 4.

We had a strong start to the year. First quarter sales of $17.2 billion increased 14% year-over-year led by MFC and RMS. While the results benefited from an extra calendar week compared to 2023, normalized year-over-year sales growth was a solid 5%. We saw strong labor and material throughput, indicative of an improving supply chain.

We continue to work closely with our supply chain partners to enhance quality and performance proactively and as needed, expand the breadth and depth of our engagement at supplier locations. Segment operating profit of $1.7 billion was up 4% year-over-year, with margins up 10.1% and included the anticipated $100 million reach forward loss associated with the classified missile program at MFC. Excluding this charge, Lockheed Martin segment margins were 10.7% primarily reflecting year-over-year lower profit adjustments. GAAP earnings per share of $6.39 were down 3% as year-over-year benefits from higher profit and lower share count were more than offset by higher interest expense, lower pension income and mark-to-market gains.

Book-to-bill in the first quarter was just below one. Notably, Space booked several large national security orders in the quarter, including SDA tracking layer and other significant classified awards, contributing to a book-to-bill ratio of 1.8 and record backlog of $33 billion at space. We generated $1.3 billion of free cash flow in the quarter after investing $360 million in research and development and $380 million in capital expenditures. Share repurchases were $1 billion, and we returned $780 million through our dividend.

Shifting over to additional highlights in the quarter. We are pleased with the progress we are making on the F-16 program. The first three F-16 Block 70 jets varied from Greenville, South Carolina to Bahrain in March. To date, Lockheed Martin has produced five F-16 Block 70 jets for Bahrain with additional 11 in various stages of production and testing.

We also presented the first two F-16 Block 70 aircraft to Slovakia's deputy prime minister and minister of defense, underscoring the deepening partnership between the two countries. In addition, the State Department notified Congress of authorization of the sale of 40 F-16s and related upgrades and support to Turkiye. The latest deal builds on our long relationship and history with Turkish Air Force. We are confident the F-16 Block 70 and Viper upgrade package provide advanced 21st Century Security capabilities with affordable operating and life cycle costs for Turkiye.

We also continue to upgrade our weapon systems for longer range standoff capability. In February, in the U.S., the extended range ER variant of GMLRS, guided multiple launch rocket system, achieved success in its first operational test. The U.S. Army fired two unitary warhead ER GMLRS variants with a HIMARS launcher, demonstrating precision and advanced capability closer to production.

The U.S. Army also awarded Lockheed Martin the fourth production contract for early operating capability Precision Strike Missiles, known as PrSM. This award will allow for a significant increase in production quantities to meet Army demand for long-range surface missiles. And hypersonics.

Following the recent end-to-end flight test, we completed the test program of the Air-Launched Rapid Response Weapon, or ARRW, with full confidence in its revolutionary capabilities. We have demonstrated successful all up around end-to-end performance on multiple occasions. ARRW provides the U.S. with the earliest air-launched, fully qualified, production-ready supersonic solution -- hypersonic solution, I'm sorry.

And Lockheed Martin is prepared to quickly deliver additional tactical, operational and lead behind hypersonic strike assets that can be rapidly deployed to the U.S. military. We also continue to advance hypersonic strike capability in the land and sea domains through the long-range hypersonic weapon and conventional prompt strike programs. Both solutions have a full year milestones ahead as we progress toward operational capability.

Shifting to integrated air and missile defense arena, the Aegis Weapon System successfully executed one of the most complicated ballistic missile defense test in the first quarter when the system tracked and intercepted a medium-range ballistic missile amid multiple decoys. The test employed the latest updates to the system and demonstrates the reliability of Aegis to operate in a dynamic threat environment, and we're constantly evolving the Aegis system. This quarter, we made further progress on our efforts to integrate with PAC-3 to enable an affordable combat-proven IAMD capability for maritime engagements and expand the mission capability of our systems. I'll pause here, and let me turn it over to Maria to cover the business areas.

Maria Ricciardone -- *Vice President, Investor Relations*

OK. Thanks, Jay. Today, I will discuss first quarter year-over-year results for the business areas, starting with aeronautics on Chart 5. First quarter sales at aero were over $6.8 billion, up 9% year-over-year, and that's 1% normalized for the extra week in 2024.

The increase was primarily due to higher volumes across F-35 and Skunk Works and the continued production ramp on the F-16 program. Segment operating profit is comparable year-over-year with higher volume being offset by lower margin development contract mix and lower net profit adjustments mainly on the F-35. Aeronautics backlog remains at a healthy $57 billion, which includes 373 F-35s, 80 C-130Js, and 132 F-16s, supporting growth into 2025 and beyond. Turning to missiles and fire control on Chart 6.

Sales increased 25% from the prior year, 16% normalized for the extra week driven by production ramps on tactical and strike missile programs, primarily GMLRS, HIMARS, and JASSM and LRASM. Integrated air and missile defense also saw higher volume on PAC-3 and THAAD. As expected, segment operating profit decreased 18% year-over-year primarily due to the $100 million loss on the classified program Jay mentioned previously. Normalizing for the loss, MFC's margins would have been 13.7%.

Now I'd like to provide a quick update on our annual production capacity plans for key programs. PAC-3 is currently at 500 missiles, growing to 550 in 2025 and 650 by '27. GMLRS currently is at 10,000 missiles, growing to 14,000 by 2025. JASSM and LRASM currently at about 650 missiles, growing to 1,100 by 2026.

And HIMARS currently at 72 launchers, growing to 96 next year. Shifting to rotary and mission systems on Chart 7. Sales increased 16% in the quarter, 8% normalized for the extra week driven by higher volume across the entire portfolio, including radar and laser programs within integrated warfare systems and sensors various programs within C6ISR and the CH-53K and SEAHAWK programs within Sikorsky. Operating profit increased 23% due to higher volume and favorable contract mix, partially offset by lower profit adjustments.

Finally, with space on Chart 8. Sales increased 10% year-over-year, 2% normalized for the extra week to approximately $3.3 billion. The growth was driven by higher volume on the fleet ballistic missile program and ramp-ups on hypersonic and next-generation Interceptor programs within strategic and missile defense as well as higher volume on space development agency transport and tracking layer programs within national security space. Operating profit increased 16% compared to Q1 2023 driven by higher volume and ULA equity earnings, partially offset by lower net profit adjustments primarily on the next-gen OPIR program.

Now I'll turn it back to Jay to wrap up our prepared remarks.

Jay Malave -- *Chief Financial Officer*

Thanks, Maria. Let's turn to the outlook on Chart 9. Our expectations for Lockheed Martin's 2024 financial outlook remain unchanged from what we said in January with the strong first quarter results positioning us well to achieve the consolidated full year outlook. We continue to expect free cash flow to be in the range of $6 billion to $6.3 billion, including over $3 billion of independent research and development and capital investments while the dividend, along with the expected $4 billion of share repurchases, support our return to shareholders, targeting a mid-single-digit free cash flow per share growth over the longer term.

All right, to close out and summarize on Chart 10. We're off to a solid start in 2024 and remain laser-focused on execution to our customer and programmatic commitments while building momentum toward delivering our full year guidance. Through our 1LMX transformation, we are reengineering our internal processes by providing the automations and capabilities needed to drive efficiency, increase velocity, and enhance key captures and programs. 1LMX will enable us to combine the depth and breadth of our portfolio with the expertise and dedication of our people to drive 21st Century Security solutions for our customers and continue to create value for our shareholders.

With that, Lois, let's open up the call for Q&A.

Questions & Answers:

Operator

[Operator instructions] Our first question is from the line of Doug Harned from Bernstein. Please go ahead.

Doug Harned -- *AllianceBernstein -- Analyst*

Great. Thank you. Good morning. I'd like to start to make sure we have a good understanding of the F-35 right now with TR-3.

As you said, the Air Force has talked about this as well, and it looks like that timeline's moved back to some point in Q3. And there's just been a great deal of slippage in the timeline over the last few years. Block 4 has been delayed, and the new budget has cut deliveries in 2025 and '26 extensively to avoid having to do later Block 4 upgrades. Now I mean, you've been able to keep production and revenues up, although deliveries and cash payments are off.

But how can we get confident in the trajectory? And perhaps, Jim, maybe you could talk about what a positive or more negative scenario might look like for production and deliveries over the next two years and what it would mean for the revenue and cash trajectory.

Jim Taiclet -- *Chairman, President, and Chief Executive Officer*

Sure, Doug. So I think it's important to understand that we're doing, as I said earlier, concurrent development and production and then advancing the sustainment capability as well all at the same time. Most of these complex programs go through a period of development and then a production run largely off of that design base or that engineered base of what the aircraft is supposed to look like and how it's going to perform. The F-35 is different in a sense that development has been going on since the day the program started years and years ago, and it's going on today.

Now the good news about that is you have step function increases and capability every few years. And as a result of the F-35's capacity to do that, the government just came out and extended the expected service life of the aircraft another decade or two, I think it was. So this is a good thing, but it's also an extremely difficult thing to do and even to predict schedule, right? It's our responsibility to hold cost and schedule. But we're -- we don't control all the variables, let me just say, and that's OK.

We're still the OEM, and we're still responsible. And so what we run into on TR-3 is just a level of complexity and executing the step function increase that's pretty, I'd say, novel or dramatic. What the team is doing at our company is we're integrating a series of components, devices, software and managing and integrating all of that.

And so what's happening now is we are ringing out all the software through all of the new hardware and integrating it into all the aircraft other systems.

And that's taken longer than our team predicted. The way we're going to get at that is if you think of it as a Release 1 and a Release 2, and we've got a lot of confidence in this stage, Doug. Release one, if you think of it that way, is what we're calling, along with the U.S. government, a combat training-capable aircraft, meaning we can get these jets in the hands of squadron, wing and regional commanders so that they can start training their pilots on them and training their maintenance organizations and also getting their bases and infrastructure, spare parts pools and everything else sort of in operational shape, if you will.

Once we get the final software load for the fully combat-capable version of TR-3 sometime in the next few months, then those aircraft could be deployed into actual combat operations. And you'll have the training, the maintenance. They're bringing out the operational patterns and procedures on how to actually fly the jet in combat. So we'd like to be able to do it sooner, but this is the schedule we're on.

And I'd say for the combat training-capable aircraft, we're highly confident based on the test results so far that those will be deliverable in the third quarter. Jay, do you want to say anything else about cash flow and --

Jay Malave -- *Chief Financial Officer*

Yes, sure. Doug, I'll just add. As Jim mentioned, this combat training capability and configuration, as Jim mentioned, supports the training of the squadron standing up to new squadrons and decreasing the amount of time that the aircraft are parked. All that -- what that does is really avoids any type of significant disruption.

And so what this does is really keep our production on track here in 2024 and then beyond as well. As Jim mentioned, in 2025, we'll have further capability inserted. And we'll actually start delivering and inserting Block 4 type of capability as well. And you may have heard, you referenced comments made from the U.S.

military, and they've discussed a Block 4 reimagined. And what that would entail is an insertion schedule that's really tied to an executable plan that can be provided by industry so we can avoid these types of disruptions. And so when you look at it in the short term, could there be pressure on the Lot 15 through 17 contract profitability and potential movement around in cash flow? Yes. But I think over the longer term and the medium term, think we're working in coordination with our customer to make sure that we can deliver the capabilities the customer wants but on an executable schedule.

And if we're able to do that, then we should be able to keep the program on track from a production standpoint.

Operator

Our next question is from Peter Strauss from Barclays -- I'm sorry, David Strauss from Barclays.

David Strauss -- *Barclays -- Analyst*

Good morning. Thanks for taking the question. So since Q4, we have a '24 budget. It looks like we're going to get a very large supplemental.

You won NGI. How might all those things together change how you're thinking about where you kind of fall in the revenue guide this year and the potential for revenue growth in '25 to accelerate kind of off this low single-digit level?

Jay Malave -- *Chief Financial Officer*

Well, David, as we mentioned for this quarter, we started off pretty solid, just on an apples-to-apples basis, 5% growth in the first quarter lines up pretty well with a midpoint guidance range, which is 2% to 2.5% and the high end of that range being, say, around 3.5%. So we're well positioned to deliver on that expectation. It is possible similar to last year that we could see some upside toward the higher end of the sales guide range there. So again, really good start that enables that.

As we think about 2025, what you saw in the budget, what we're seeing here in the supplemental gives us higher confidence that we'll continue to grow. We talked about growth in -- starting in 2023, a year earlier than we had originally anticipated, accelerating in 2024 and then giving us more confidence that we'll see at least the same, if not more, growth in 2025. We'll give you -- later in the year, we'll give you a much better update in terms of what we're seeing. But right now, all this bodes well to our sustained growth in terms of what we've been driving to, not only in '25, but beyond '25 as well.

Operator

The next question is from the line of Peter Arment from Baird. Please go ahead.

Peter Arment -- *Robert W. Baird and Company -- Analyst*

Yes, thanks. Good morning, Jim and Jay. On missiles and fire control, can you talk maybe about the confidence in your margin guidance for the year, just given the 1Q margin performance was certainly the lowest that we've seen in many years. And we know the classified losses are supposed to expected to continue.

But you've got kind of this inflecting top line. I think Maria called out all the production increases and just -- do the losses just get smaller in the classified? Or are we going to see some offsets just because of the higher volume? Maybe if you could just give more color on kind of your expectations on the market performance profile going forward. Thanks.

Jay Malave -- *Chief Financial Officer*

Sure, Peter. MFC was a little light because of two factors. First, as we mentioned, we did have the $100 million loss provision that we recorded. In addition to that, their profit adjustments were lighter year-over-year by about $20 million.

And so that's a function really of calendarization. We'll see profit adjustments in the -- throughout the rest of the year improve and so getting us back to what we had guided to. Just as a reminder, we're anticipating -- and that was fully anticipated in our guidance for MFC that we would have additional -- or could have additional losses in the back half of the year associated with this classified program. And so what our guide, what it implies from where we are today, we recorded $100 million, is in the range of another $225 million in the back half of the year, which would be provided for in this expectation.

Now going beyond that, we've talked about this, and I'll just deal with the question upfront in terms of can timing change. And it's possible that we could record additional losses here in 2024 depending on other factors as the year goes on. There's factors such as technical milestone achievement through the balance of the year, discussions with our customers, visibility to the funding -- so visibility to funding. So all of those factors go into the determination and whether you have to recognize a loss earlier.

You'll see coming out in our 10-Q that we've actually ranged the potential losses on this program, which would be in excess -- additional losses in excess of $1 billion. So at least you can have an opportunity to size it. The timing of which is still to be determined, and we've got about $225 million at least embedded in our guide for the balance of the year. What -- going back to MFC for the year, if you really take apart their expectation, the impact of this at $325 million of losses in the year anticipated, they're offsetting a fair amount of that in their guide.

I mean, the impact of that is 270 basis points alone. And their total full year guide is down about 210. And so you're seeing offsetting improvement within MFC. It's not entirely one-for-one, but their underlying performance has been solid, and we expect that to continue.

Jim Taiclet -- *Chairman, President, and Chief Executive Officer*

And, Peter, it's Jim. I used to fly these aircraft for the USAF, and I can assure you that the capability that's being developed here at MFC and a classified program will have very, very long legs. There's going to be many, many years, we believe, of orders to follow. So yes, for a quarter, for the year, maybe for a couple of years, we're going to absorb the loss provisions that Jay described.

But I think if you look in the area under the curve for the life cycle, it's going to be significantly positive. And so we want to get there as efficiently as we can. This is a long run franchise program that I think the U.S. government is going to support for a very long time.

Jay Malave -- *Chief Financial Officer*

Right. I think it's important to keep that in mind. We spent a lot of time talking about timing of losses and things like that and the magnitude of it. But we also spend a lot of time internally going through just where we are in the progress of the program as well as the business case.

And I can assure you the business case is accretive to it at a -- above our cost of capital. And as Jim mentioned, it's going to provide strong returns for many years to come.

Operator

Our next question is from Matt Akers from Wells Fargo. Please go ahead.

Matt Akers -- *Wells Fargo Securities -- Analyst*

Good morning. Thanks for the question. I wanted to ask a couple on the next-gen interceptor win. I guess one, just how you were able to win, I think, ahead of when the original down select was expected.

And then also whenever there's sort of a big contract like this, we always get questions on potential charges because we've seen some of that happen in the industry. So just your confidence that you've got the cost there sort of sized correctly.

Jim Taiclet -- *Chairman, President, and Chief Executive Officer*

So the company made a bet about three years ago and say, OK, we've got a digital transformation program that is going to take the whole company to this model-based engineering system. And that's all the way from requirements, acceptance from the government to sustainment years and years down the road. And we scoped this before. It's about a $6 billion, eight- to 10-year program to convert the entire company to a model-based engineering, production and sustainment operation.

NGI was one of the pathfinder programs picked to implement this because there's no legacy to convert, right? There's no old blueprints to try to figure out how to make three-dimensional, which is something, by the way, we are doing for C-130 and other programs right now. But we could get off to the fast start on NGI because it was in this born digital category. Right from the proposal, we were using these digital technologies, 3D, CAD, and everything else and sharing data with the government in that fashion, and they were able to receive it. And we could thereby accelerate the schedule and contain the cost of the development and ultimately, the production, too, by using these tools.

There were thee original players in this. One dropped out fairly early. The second was in kind of this final phase, if you will, of down select. And we're just ready to go and provided our proposal ahead of schedule.

The other player, to my knowledge, provided a proposal also. And then the government was able to make a decision based on that. But I think because of our speed and our ability to demonstrate manageable costs over time, we won and kind of won early, if you will. I'll let Jay talk more about financials, but what I can assure you is the process of this bid did not require us to dive to the bottom on cost.

So Jay, do you want to take it from there?

Jay Malave -- *Chief Financial Officer*

Sure. We're currently performing already under a contract, and that contract will continue. We've talked about this before. We've completed a preliminary design review in September of 2023.

And we're on track for critical design review in 2025 and under the current contract as well as building test assets. So that will just continue under this down select. As far as pricing and costs, the current contract, because of development contracts, cost plus contract, it's low margin as you would expect, but nothing again abnormal. As far as future bidding that we provided for future types of contracts, there were various elements or different types of contract structures that the customer asked for.

We provided those to the customer, none of which was based on aggressive pricing or bidding, as Jim mentioned. We've talked about this in the past, and we've taken a middle-of-the-road approach to our pricing, and this is no different.

Operator

Thank you. The next question is from Ron Epstein from Bank of America. Please go ahead.

Ron Epstein -- *Bank of America Merrill Lynch -- Analyst*

Good morning, guys.

Jim Taiclet -- *Chairman, President, and Chief Executive Officer*

Good morning.

Ron Epstein -- *Bank of America Merrill Lynch -- Analyst*

With FARA off the table, and it looks like the flyer program has decent support, how are you thinking about the outlook for the vertical lift business? Where could we see some upside? What other competitions are out there? And how should we think about that?

Jim Taiclet -- *Chairman, President, and Chief Executive Officer*

Yes. So Ron, this is Jim here. As we kind of roll into the 21st century, what our company is trying to do is not just look at things through the programmatic lens or I'll call it vertical kind of column but also horizontally through the actual mission and figure out what technologies can accomplish the mission that will enable our core basic platforms to be successful as well. And that's how we're looking at the rotary business.

It's not just at Sikorsky anymore. It is Sikorsky plus all of Lockheed Martin, right? And that's one of the reasons we're able to work with U.S. Army, Congress, and the broader U.S. government to increase support for, let's say, Black Hawk, for example, in spite of the fact that FARA is being canceled and there's another vertical lift program in the form of FLRAA, which is going to be a tiltrotor.

So there are missions that the Black Hawk will be extremely well suited for in the rotary lower -- it's really the lower air domain. It's not just for rotorcraft. So how do we pair those rotorcraft, a traditional Black Hawk, let's call it, by modernizing the Black Hawk with digital technology to do what the Air Force would call collaborative combat aircraft, meaning you can in the lower air domain tie drones and unmanned, uncrewed aircraft to a Black Hawk using digital technology, and we've demonstrated that already. You can actually make the Black Hawk itself autonomous with no pilots in it being flown from a command center to do high-risk missions.

So we're looking at the mission and saying, what can we do all across Lockheed Martin, whether it's through sensor fusion, AI, 5G, space-based sensor assets to make the Black Hawk, for example, a much longer live platform, a much more relevant platform and actually a very efficient platform compared to, say, the FLRAA aircraft that won't be able to do some of the missions anyway. So we have a strong confidence then in Sikorsky itself and the platforms that it does produce. And that includes CH-53K, which I mentioned the SEAHAWK, which is a Black Hawk that's configured for maritime operations that is pretty high tech as well. And so we feel really solid, as I think Jay said in his remarks, on Sikorsky's future with a backlog of $20 billion and the ability to modernize these really reliable in production aircraft to do new things and with missions in digital technology and other -- and integrate with other parts of LM and our partners to make those platforms relevant in the future.

So I'll stop there. Jay, you have anything else you want to say?

Jay Malave -- *Chief Financial Officer*

Sure. Just a couple of things, as Jim mentioned. A stable outlook is the best way to describe it. As Jim mentioned, CH-53K is really the pillar.

And those revenues between now and 2027 and 2028 are going to double. And so while we will see declines in other programs such as combat rescue helicopter, some declines on Black Hawk and others, the CH-53K will really offset all of those declines. We do have to go through a rebalance, a little bit of a rebalance of the workforce because the mix of development work versus production work is different than what we had originally anticipated. So we'll go through that.

But I think the business, as I mentioned, will be -- is pretty stable. We're also, as Jim mentioned, continue to have dialogue and just investments in Black Hawk modernization, which will maintain its relevancy particularly in the JADC2 environment. And so, of course, you continue to see opportunities for not only the base missions that Black Hawk performs but other missions as well. Those dialogues are ongoing with the Army to determine what would be the best fit for those.

And so as I mentioned, from a revenue standpoint over the next five years, it will actually go up over the next few years a little bit, come back down, but pretty much flat to where it is today. And so stability, I think, is the best way to describe it.

Operator

Our next question is from Rob Spingarn from Melius Research. Please go ahead.

Rob Spingarn -- *Melius Research -- Analyst*

Thank you. Good morning. Jim, if we put the impact of TR-3 to the side, on the last call, you underscored the importance of the supply chain in producing F-35s at a rate of 156. And one of the things that's made the F-35 program so well supported by Congress and international countries is the breadth of the supply chain.

But is the complexity and scale of the supply chain limiting the potential and affordability of the program? And on future fighter aircraft programs, whether it be NGAD or F/A-XX, might we expect Lockheed to do more of the work in-house, the production work in-house when compared to F-35?

Jim Taiclet -- *Chairman, President, and Chief Executive Officer*

So it's a great topic, Rob. And so let's start with the origination of the F-35 program. It was intended, as you said, to be a wide-based allied program. I think it was seven literally partners, essentially treaty partners that were going to all get together and contribute their industrial capacity and their financial capacity to this program, given its importance and complexity and the scale that people are contemplating.

So yes, we have a pretty broad supply chain. There were a couple of times when that's gotten a little tough for the program. COVID was one of those. So we had delayed deliveries out of the U.K.

because the factories there weren't open, although ours were. So we will be mitigating any future programs that we have. And we're eager to have international production and sustainment partners, and we're going to expand that. But we're also going to apply some anti-fragility methodologies to those initiatives going forward.

No one really thought of COVID, of course. But now that we've had that example, we need to know -- we know we need to have second and maybe third sources. And geographic diversity would be a positive thing from that perspective. So we'll just be a little more broadly thoughtful about how we do this.

Having single sources outside the U.S. is probably not the best idea. There's an affordability issue around that, too. So we're just going to have to balance everything out.

So based on its origination and essentially the commitment of the countries to the program, we do have that sort of spread out supply chain with a couple of weak spots in it. Look, another weak spot's canopies, right? How hard is it to make a glass canopy? Well, with this kind of stress and the kind of precision that's needed and put in an F-35 canopy together versus an F-4, which I used to look out a little bit. highly complex, hard to produce, single source, one of the big degraders that we have. So again, we're going to learn from that, whether it's a domestic or an international supplier going forward.

In addition, as you pointed out, we are heavily insourcing when we can, and Lockheed Martin has the best technology. We're looking hard at making sure that we can control as much of the supply chain that is feasible and reasonable based on whatever program it is. And so, for example, on NGI, that was an MFC, Lockheed Martin Space collaboration to make sure that the most critical sensor components that we could produce in the company effectively and efficiently were the ones that were selected, OK? And so your topic is a really great one. We intend to actually geographically further diversify supply chain but really based on this anti-fragility concept of having two or three sources, either different parts of the world, different companies, different logistical chains, things like that where we won't run into some supply chain issues as much as we have on some prior programs, including F-35, honestly.

Operator

Next question is from Rob Stallard from Vertical Research. Please go ahead.

Rob Stallard -- *Vertical Research Partners -- Analyst*

Thanks so much. Good morning.

Jim Taiclet -- *Chairman, President, and Chief Executive Officer*

Good morning.

Rob Stallard -- *Vertical Research Partners -- Analyst*

Jim, last quarter, you had some comments on contract structures and the way perhaps your customers have been dealing with defense industry in recent years. I was wondering if there's been any sort of resonance from your commentary and any willingness, early willingness from the customer to look at this in a fresh way.

Jim Taiclet -- *Chairman, President, and Chief Executive Officer*

So let me focus on digital service contracting because I think that's a really ripe opportunity area for the DoD to work with industry, not just the traditional defense fronts, if you will, but broader industry, too. We want to play on subscription basis ourselves. We want to bring in partners that will only be our suppliers on a subscription basis. So in terms of, say, 5G, connectivity services, backhaul, those kinds of things, AI, which needs constant refreshing and modeling.

We will do a lot of the AI in-house, but we're not going to be possible to do all of it. We want to bring in partners. We announced a couple of them like NVIDIA and IBM. They want to work with us.

So I do think we're starting to get interest inside government on how to do this. We proposed, frankly, ourselves, which will open up opportunity for a lot of other companies in different sectors an adjacent acquisition process within the DoD for digital services alongside the traditional DoD acquisition process for largely physical goods like aircraft, ships, etc. There's interest in that. We haven't gotten it over the line, so to speak.

But I think there's a lot of advocacy across broad industry to do that and starting to be in Congress and other places in DoD as well. Along with that, we want to drive an open architecture system so that U.S. government has a lot of diversity in its potential suppliers because we're all working off of the same standards base as far as APIs, interfaces, frequencies, use and those kinds of things and synchronize that as much as we can with commercial industry so we can use more of their IP and more of their resources and more of their people. So I think that there's a lot of opportunity here, and we're getting -- starting to get some traction on it.

But it's going to take a little bit of time to get those processes and those standards bodies put in place. But we're actually on it, and we have some partners and teammates agree with those.

Jay Malave -- *Chief Financial Officer*

I'll just add, Rob, we have seen some changes where the contract structure is more closely aligned with the capability that's being requested and the assessment of the technology maturation of that capability. And so you're not seeing as many of these kind of high-risk fixed-price development contracts that really don't work well for anybody because they don't optimize a solution, and they typically end up poorly for the contractor. And so we have seen those changes. Again, they're case by case.

But I can tell you that at least what we're seeing, particularly in the higher risk, higher technology-type risk arenas, we are seeing a shift in contracting to contracting vehicles that are just more relevant to those circumstances.

Jim Taiclet -- *Chairman, President, and Chief Executive Officer*

Yes. And, Rob, maybe to support just another minute what Jay is speaking about in a more direct way here. I have a view, as you may have heard, that having a -- even a cost-based development project or program with a fixed price set of early production options is a tough thing to intellectually get at least my arms around, which is committing to cost and price on an object that really hasn't been fully invented yet. And we're looking really, really hard if that's -- in any opportunity that's presented to us in that context as a company.

So that is one area where to, again, highlight what Jay is speaking about, more of an alignment of what can industry deliver on a reasonable risk basis. And so the government can get a successful program out of it, frankly, and not have massive write-offs in industry or cost overruns or long schedule delays. We think it's constructive to get some more of that alignment that Jay described.

Operator

Our next question is from George Shapiro from Shapiro Research. Please go ahead.

George Shapiro -- *Shapiro Research -- Analyst*

Yes. Good morning. A couple of quick ones for you, Jay. If the first quarter normalized growth was 5%, and even at the high end, you're looking for 3.5%.

So will this be the fastest-growing quarter? And what slows down and obviously normalizing for the fourth quarter? And then the second question is the guide for other net was $400 million. First quarter is only negative 61. So I was expecting you might lower that number for the year. And so what was the reason why you didn't lower it? Thanks.

Jay Malave -- *Chief Financial Officer*

All right, George. On the quarterly profile for sales, as you mentioned, on a normalized basis, 5% growth here in the first quarter. I'd see it will slow down to low single digit in the second and third. And we're thinking that the fourth quarter probably flattish to maybe slightly down.

You might recall that the fourth quarter of 2023 ended up being stronger than we were originally expecting. And so our compare in the fourth quarter of this year would be a little bit tougher. And so you're talking in second and third quarters probably 2% to 3% type of growth numbers with a flattish year-over-year in the fourth quarter. As far as other net, George, you got me there.

There's probably some opportunity in there. We'll calibrate that, and we'll update the guide in the second quarter for the full year. But it's probably more prudent to just wait till we're halfway through the year and just make an assessment of the entire outlook, and we'll just leave it there.

Operator

And our next question is from Noah Poponak from Goldman Sachs. Please go ahead.

Noah Poponak -- *Goldman Sachs -- Analyst*

Good morning. You talked about Pentagon terms of trade and contract structure here, and you mentioned NGI as cost plus development. But you also mentioned they asked for -- to kind of see multiple contract structures. Curious what they asked to see, where you landed on those maybe interim windows between development and production.

And then, Jay, the loss-making classified program in MFC, what year do you expect that to be profitable on an annual basis? And just to confirm, there's one program in that position, correct, not more than one?

Jay Malave -- *Chief Financial Officer*

Yes, that's correct, Noah, just one program. And I think right now, our outlook would say probably in -- if you're -- probably 2028 is where we would expect that to flip to positive. Again, it's a question of the timing of the recognition of the losses, but if you assume kind of more linear approach from here on out to be about 2028. As far as NGI, just again, the different contracting vehicles are ranging anywhere from cost plus to fixed price incentive.

There is no -- the customer hasn't selected exactly which vehicle wants to pursue. So there's nothing actually under contract for the next phase or phases. Right now, we're going to continue to perform under the current contract, as I mentioned. We got critical design review in 2025.

We also, as part of this contract, we have to provide some test assets. And between now and then, I'm sure we'll have discussions in terms of getting future phases on contract.

Jim Taiclet -- *Chairman, President, and Chief Executive Officer*

Yes. And Noah, the principle behind what Jay and I are speaking to here is that we want to be agnostic ultimately from a risk-adjusted basis on whatever contract format that the government would like to employ in these matters. So if it's going to be any kind of -- I'll say, a highest risk would be again, fixed price production on something that's not been designed yet. We will put a high-risk premium in the future and have on those kinds of requests of the government.

And what's interesting is they're asking for multiple types on NGI. And that's going to give them an opportunity to see what contract risk transfer to industry is now going to cost, at least in Lockheed Martin's case because we will reply on that basis to say, if you want us to have this kind of contract, we have to have a risk premium that's significantly higher than, let's just say, a pure cost-based contract to give you the greatest contrast. And that's just the principle we're going to use from now on. So if you want a certain price point as government, we will provide you a contract format that will get you that price.

But if you want to shift more risk to industry, you'll see a higher risk premium come back in our proposal, if you will. So that's the principle we're using and that we'll continue to use.

Maria Ricciardone -- *Vice President, Investor Relations*

Lois, I think we have time for one more question since we're close to the top of the hour. So let's take one more, and then we'll be done.

Operator

Thank you. And that question will come from Rich Safran from Seaport Research Partners. Please go ahead.

Rich Safran -- *Seaport Research Partners -- Analyst*

Good morning. Thanks. Two-part question on C2BMC. I want to know if you could discuss the P&L impact in terms of timing and margins.

Second and more broadly, I thought you might discuss a bit about how this fits with your strategy for pulling in mission-centric programs and what the opportunity set there is?

Jay Malave -- *Chief Financial Officer*

OK. For timing, we've been under contract. This is a follow-on for us. And what I could do, Rich, is I don't recall offhand exactly what the annual revenues are, but I got Maria follow up on you.

But this is, again, just a continuation of those activities there. And so no significant change I don't think from a revenue standpoint or margin expectation at RMS for this.

Jim Taiclet -- *Chairman, President, and Chief Executive Officer*

And so from the mission-centric approach, this is actually a pretty good example of that, Rich, in pulling through or extending existing programs, right? And so we're trying to show is that you can map data flows through a full mission, right, which generally includes and now cyber, by the way, upfront. So you have a cyber track, then you have to have a sensing capability. You then have to have a way to get sensor data, whether it comes from a satellite or a submarine back into the command and control system. Along with that, you have to have targeting and tracking quality data that comes from beyond just the sensing of an object that's a target.

You have to be able to track the target in a way that you can then guide a projectile to it and take it out or put a cyber attack against it or laser or whatever the effector will be. And so the term of art for that is not pretty. It's called a kill chain. We want to put these chains together in diverse ways that are, again, anti-fragile, which means if you take out one link in that chain, you don't eliminate your ability to complete the mission.

And so that's where we're looking at data flows in addition to physical flows, if you will, right? And if we can help create an open architecture system that can provide multiple routes of data flows that can affect missions, then we will be able to have kind of a head start on our platforms and designing to those. And that's what we're doing with Black Hawk for example. That's what we're doing using the C2BMC system. The LRDR radar and ultimately, the NGI missile will be based on a similar architecture.

We'd like that architecture to be common outside of Lockheed Martin as well as inside because that will open up more suppliers to us and also provide the government more competitive options. So this is all coming together, and I'm kind of glad you asked the question here at the end because it's very intentional. OK. Thanks, Maria.

Thanks, everybody, on the call. I want to also express my appreciation to everybody at Lockheed Martin for their relentless focus on this operational execution I mentioned, driving innovation and excellence. And we're all doing this in support of our customers. That's the reason.

We have a vision for 21st Century Security that we think will keep deterrence high in an increasingly complex and threatening global environment. As a company, we have a strong backlog, as you heard. We're driving operating discipline across the whole organization and this continuous improvement mindset we have. So all that's designed to position our company for you as shareholders for future growth and attractive and reliable returns to shareholders over a long period of time.

So thank you all again for joining us today, and we look forward to speaking with you on our next earnings call in July. Lois, that concludes our call. Thanks.

Operator

[Operator signoff]

Duration: 0 minutes

Call participants:

Maria Ricciardone -- *Vice President, Investor Relations*

Jim Taiclet -- *Chairman, President, and Chief Executive Officer*

Jay Malave -- *Chief Financial Officer*

Doug Harned -- *AllianceBernstein -- Analyst*

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Matt Akers -- *Wells Fargo Securities -- Analyst*

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