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# AeroVironment, Inc. (AVAV)

## Bank of America Securities Industrials Transportation & Airlines Key Leaders Conference


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# CORPORATE PARTICIPANTS

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

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

# MANAGEMENT DISCUSSION SECTION

### Unverified Participant

So, Wahid, Sean, thank you for joining us. You know, we've got Wahid Nawabi. Is that right?

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

That's right.

### Unverified Participant

And Sean Woodward. Wahid's the CEO. Sean's the CFO of the AeroVironment. So thank you for making the time today to talk with us.

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

Thank you.

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

Thank you for having us.

### Unverified Participant

Yeah. And for those that don't know, Sean's the new CFO of AeroVironment, so welcome aboard.

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

Thank you. Looking forward to working with you.


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# QUESTION AND ANSWER SECTION

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Yes. So maybe just a broad question to start, how's business?

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

A

Busy as heck. Good busy. There's a lot of dynamics going on in our industry that we're ramping up production. We had a – I can't talk about the specifics of Q4 because we're in a quiet period. But it's a very critical quarter for us. We must execute and deliver. We're going to share those results and outcomes in a month or so, a month and a half, two months and but besides that, there's a lot that's going on in the industry in general. As you know, the budget dollars that were appropriated and authorized late January or early February, that is just making its way to the Department of War. And a lot of those are going to be obligated in the contracts. So last month or so, plus the next three to four months is going to be very busy, in my view, for us.

And then right after that, there's a lot of discussion and attention on fiscal 2027 budget, the $1.5 trillion and a step function, massive increase in our areas which is the autonomous systems, the wars of drones. Basically, they're asking for about $75 billion worth of funding to spend in the areas that we're like the number one, number two player in every one – categories, those things. So, busy. And then at the same time, we're trying to ramp up production. We're trying to support the US government on active conflicts that are going on in Ukraine as well as a program or the initiative called Epic Fury, the Persian Gulf. And then, of course, there's an emerging, potential threat that's happening in the Pacific, US has to get ready. So we don't have time for any leisure activities.

Q

So maybe quickly, how are you thinking about – because you mentioned that the $70 billion, how are you thinking about the Defense Autonomous Warfare Group and what that means? And does that change anything and...

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

A

Yeah. So I believe this is part of the department's strategic goal to consolidate the decision-making for these areas into one bucket of funding, number one; and, two, authority that can drive strategic decisions on allocate where the gaps are, how to prioritize those things and how to execute against them. Still, majority of the execution is going to happen within the services and the program offices and contracting offices that is designed to support the Army, the Navy, the Marine Corps. But the DAWG we've been involved in very heavily. They are incredibly active in lots of different areas that directly relates to our stuff. And it's, I believe, Undersecretary – or Deputy Secretary Feinberg's vision and intent to try to have this realignment and focus and direct line of responsibility and authority to be able to execute and command and drive the ship. And we support it. It's been very, very – actually, I think it's a good change that is going to, hopefully, help move things faster in the next 12 months.

Q


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Got you. Got you. And when we think about – you mentioned current kinetic events going on in the world, Ukraine, Iran. It does seem like one of the things – at least that speaks to me that's come out of Iran is the vulnerability of civilian targets to unmanned systems. So, can you speak to what that means for AeroVironment in terms of opportunity?

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

A

Sure. So, I mean, this is like our moment, if you ask me. The reason why because, four, five years ago, every military leader you met within the building or outside the building or in the world, they thought, I need more F-35 times airplanes, I need more aircraft carriers, I need more tanks, I need more armored vehicles. And that's been the story of defense for the last multiple decades. These two conflicts have shifted the paradigm dramatically.

Ukraine basically put an exclamation mark that you've got to deal with drones that are armed, and how do you defeat – how do you make a lot of them and how do you defeat them? And then, now the conflict in Iran, where US is actively involved – and the other one where we're indirectly involved, this one we're directly involved – has shifted the paradigm even further, because we thought, okay, they may have like 20 or 30 or 50 of these Shaheds, but there are in thousands, thousands of them. And who knows, if Iran can do thousands and thousands, China could probably do hundreds of thousands, if not millions. And so, we don't have the capability to, A, defeat that many and do it at an economic way.

And so, the war of drones has become now the defense against drones in the Counter-UAS world. And these areas are the areas that we're the number one or number two player in the world. And so, we're positioned phenomenally well. And I think this story and this strategy is going to continue to gain more momentum in terms of spending dollars being more aligned towards these capabilities, because US doesn't have it. And I can give you several examples of the areas that we play in.

Q

It'd be good.

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

A

Yeah. So, first of all, if you look at our portfolio, it's a very diversified portfolio of, first, non-lethal drones. We're the number one player in the world on Group 1, 2, and 3, which is by far the lion's share. A Group 1 is small quadcopter, the DJI size, all the way up to Group 3, which is a Shahed drone. We are the leader in small UAS and medium UAS. Our JUMP 20 system and JUMP 20-X is the world leader. We have won seven consecutive program records internationally in the last 12 months alone. These are 5-, 10-year programs that our European allies are coming to us and they are actually procuring these systems. We compete and we won every single one. We lost one out of eight, and that was because of our own fault. We submitted out a non-compliant bid, but the other seven we won.

And so, then you get into the lethality systems. This is loading munitions, such as Switchblade and our one-way attack drones, such as Red Dragon and Dragon Family. And then, the latest product that we announced called Mayhem in the Switchblade Family. That, we're the world leader. We're the largest producer of these systems in the world, and we're the dominant player there as well.


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And then, on the counter-UAS side, we have a layered approach to the solution set. We do not believe there is a one solution that fits all. There's going to be a layered approach to defending against these drones and the first mechanism is RF jamming. We have the world's best RF jammers that is the most successful, the most predominately used one in Ukraine as well, and called the Titan series. And that business is doubling every year literally. And that's one. So, you could apply that. But Shaheds are actually immune to that and Chinese drones are going to be immune to that because they don't have RF signals.

And so, then you have to go to the next layer, which is the most economical, it's called the directed energy laser weapon systems. We've got the world's best-performing, most reliable directed energy system called the LOCUST series. And we announced our newest product, like, a couple of months ago called the X3. X3 is basically putting a system on top of a Stryker or JLTV that allows you to go – we'd be driving down the road, you can detect the drone and you can defeat the drone while you're driving it. And the key milestone for that is the first ever, historic Program of Record for the US Army called EHEL, emerging or emergent high-energy lasers. They need to make – they are planning on making a decision within the next 30 – 90 days, and that will be the first ever production level Program of Record for a laser weapon system in the US military's history. And we're competing for that. And so that should open the floodgates.

And then the third layer for us is a kinetic kill. So if you can't defeat it with jamming, you can't defeat them with laser weapon systems, then you're going to use a missile or a kinetic kill like a Switchblade. That is not the cheapest. And the solution that US has today is only one. The solution that we have is every time a Shahed comes to us or something smaller than a Shahed, we use a $2 million to $3 million missile and we're depleting our inventory of missiles that's supposed to be used against ICBMs and big airplanes and other things.

So we have a Program of Record that we're competing with the US Army called NGCM that is the Next-Generation Counter-UAS Missile. There was two players, it was us and RTX and we were down selected. We were awarded the contract. We're now going to be delivering 80-some-odd systems. It is the first ever missile that is going to be developed specifically to a target and defeat group 1,2, 3 drones. And it's going to do it at a fraction of the cost of a missile. It's in the $100,000 – $150,000 price target, not $3 million targets.

So our solution set, as you can see, it's a very layered approach. We're focused on the long term, war, not the short-term battles. And we're making sure that we progress in every single category as we go forward.

Q

And then I mean, if I can just maybe pull on the string a little bit more. How do you think about civilian targets? Because something that jumped out of me was when the Burj got hit. You have this high-profile civilian target. Is there a world and I don't want to like kind of get to out there, but where every single high-profile civilian target has some sort of protection system?

**Wahid Nawabi**

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

A

Absolutely. There's a scenario and I firmly believe that – I hope it doesn't get to this, it's very unfortunate or it would be very unfortunate, there's a real catastrophic event. You talk about the Olympics, World Cup, music festivals, and NFL games. We were on an airplane, this story that NFL now has – no, Major Baseball League (sic) [Major League Baseball] has a person who is looking after how do I protect stadiums and gatherings against drone attacks. So they're just starting, hiring one person to lead this effort within the entire MLB. And that's going to happen in all these places.


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And most likely, the most obvious solution, so first is Golden Dome, which is about military sites and critical infrastructure for the national security and it's domestic mostly. But after that, it's going to be every nuclear power plant, every hydroelectric dam, every water sanitation site, every stadium, every [ph] music festival (00:11:10), data centers. These sites are all going to have to be protected because three or four people can cause a lot of havoc internally. And so you may not see a X3 high-energy laser, but you will see definitely a Titan jamming system. And at the lower end, you'll probably see a 5-kilowatt, smaller size LOCUST system installed at these critical sites. The market for that is basically tens of thousands of sites, not 100 site. And we're kind of getting ready and positioning ourselves for that.

The biggest hurdle there are going to be just regulations. And I have one piece of great news where the US Department of Defense and FAA just announced that our product, LOCUST, has been now proven to be safe and operationally deployable domestically. That was a major announcement that just came out literally last month or two, and that's going to most likely open up doors for the adoption of these things in the next couple of years.

Q

Got you. And then maybe switching to Sean real quick, as you've come up to speed on the company and started talking to analysts, investors, is there anything that jumps out at you that are, potentially, misconceptions people have about the business and the business model?

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

A

Oh, yeah, great question. Looking at the portfolio that we have right now and the key products and franchises that we have current and soon to be rolling out, I think just the understanding of the market sizing for that and the ability for us to bring this to market and when is not quite understood and we've done a lot of communications, a lot of explaining of what the new portfolio looks like. But I think we're going to continue to hone that message. And ultimately, I think that's where, looking at the models, we'll be able to see further growth and adoption of these commercialization strategies and then key franchises that we acquired.

Q

And maybe as a follow-on and maybe you haven't seen enough yet, but is there anything you want to change in people's models, where if you see an outside model you're like, that's just not right? Like, is there anything that jumps out at you like that?

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

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Yeah. I think just looking at the ability for us to deliver and grow profitably has been undervalued from a multiple perspective compared to our peers. If you look at a lot of our peers, the multiples are much more favorable and they're losing money or they're just starting up on their ramp on volume. We've been doing this for years. We understand what it takes to bring products to the market and be successful in it. And we think our multiples really are kind of undervalued.


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Q

Got it. Got it. And then, Wahid, how are you thinking about the balance between the smaller UAS and larger ones and procurement priorities? And maybe I might add on there, I'll make it a little more complicated question, and then how do you reconcile that with some of the other competitors in the market? The Europeans are getting in this market and...

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

A

Yeah. So, I mean, we've been competing with the large primes and small startups our entire history and existence. I've been with the firm for over a decade and a half, and there's not been a single year that I don't go to a conference or to an event where there's not the concern about how do you guys going to compete with startups and how do you compete with VC-backed companies?

If you recall, the commercial drone insanity that happened like 10 years ago, we started counting actually companies, it was over 1,500 of them. And I look around now, we stopped counting because there are still many. And all of them shifted to defense. If we're not going to make money here, then we're going a find a market in the defense market. I think one or two is still in existence, and they are still not profitable and they still haven't reached any level of scale whatsoever. So, that's the fact about the last 30 years, A.

B, we are the model that most of these companies are copying essentially, the business model of investing in R&D, developing products rapidly, the disruptive capabilities, and bringing it to market and scaling is what they really all want to do. So, that's not a surprise.

The third thing is the market is growing so fast and becoming so big that there's room for more players. And it's obvious it's going to attract more investments, because the investors look at where the puck is going and there's a lot of money to be made here, and that's why they're doing it.

But what differentiates us is exactly what I said and Sean said, which is there's one thing that Elon Musk says that I really believe in. 10% of the effort is doing a prototype. 90% of the work is when you do it, trying to scale that in thousands of units. How do you scale to deliver reliable, quality product and thousands, if not tens of thousands, over the long term? There's a lot of work to be done there. And I have this debate with our engineers all the time, because they're done, they're not done. There's a lot more work to be done to be done. And that's something that nobody can match with AV.

If you look at small drones, we've got the largest installed base of small drones in military ever, 55,000-plus systems. If you look at our number of customers, 55 allied nations, the size of United States, every branch of the US military, we are the dominant player in these categories and we've been the number one since the beginning. Production capacity on all these categories that we mentioned, we are in full rate production in 8 or 9 of these 10 products, and we're making it now in volume and we're already in second-gen, third-gen, fourth-gen product. Every single one of them, right, Puma, we are in Puma 3, third generation. The current Puma is like nothing like the original Puma. Everything inside looks different. So, we have an advantage there.

And the last thing I'd say is our technology stack is incredibly a huge differentiator, too. We design 90% of our subsystems ourselves. We design our structures. We design our motors. We design our autopilots. We design our autonomy package. We design our ATR package. We design our propulsion battery packs even, gimbals. So,


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having the ability to stack up the technology and optimize the performance of the drone allows us to beat competitors when it comes to Program of Record competitions, because then a little difference here and there makes a huge difference on the outcome.

I had an investor call or meeting earlier and somebody said, we have a Group 2 drone called P550 and there was a competitor. There were the two down selects on the Army program record called LRR. But pound for pound, our product outperforms significantly, and the Program of Record selection is going to most likely reflect that, and we'll see who's going to be the winner, but that's how we also keep a differentiation between us and everyone else.

We welcome competition. It allows us to stay competitive and on our toes. But most of our worry is not competitors. Most of our worry is making sure that we execute on our plans and the budget dollars flow so we can go deliver.

Q

And I mean just a maybe tangent to that, is there an opportunity as the market grows and if there's room for other players to be emergent supplier? Like, for example, your gimbals, doesn't it? Could you sell them to somebody else who needs gimbals or your motors because I know getting motors domestically can be tricky, right, a lot of that kit comes from Asia, right?

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

A

Yeah. So the answer is absolutely yes. In fact, we are doing that today in some areas. Initially, we got into these things because nobody else was producing them or manufacturing them or designing them. There was no such company that made motors for a military-grade drone to which you could buy was a RC helicopter or airplane drone, motor or a servo or whatever. So we designed these things ourselves. Now, there are players that make subsystems and they're making them for us too, but we do still design them.

Lastly, I would say that we are currently doing that in some areas already. For example, if you look at our ground control station, we bought a company four, five years ago called Tomahawk Robotics. The concept behind that is that US Army got a program of record called HMIF, Human-Machine Interface (sic) [Integrated] Formations. Essentially, if you're a soldier, you're going to have multiple robots, ground robot, two or three drones, loading munitions. You don't want to carry five different controllers and radios and battery packs. You want to carry one and you will be able to control and communicate and operate these. So they competed with this program and we competed and Anduril and other was on the competitor. We won. And we now are providing that as a solution to a variety of different drone manufacturers. In fact, we shipped more of that product with our competitor drones and robots than our own. And the goal is obviously to stay agnostic there.

Gimbals we've thought about. Gimbals are a little bit more tricky because you have to be involved in a design phase of the product itself unless we get to our larger sizes. But certainly, that's another area. There's areas of even propulsion, motors and others that we could do that. We've been so busy making products and producing to fulfill our own needs. We haven't had the need to go beyond that, but that's definitely going to be the case going forward to some extent.

Q


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Got you.

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

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Yeah. Oh, the last thing I would say, if you don't mind, sorry, on the autonomy and computer vision, we're currently integrating our autonomy packages, basically the brains of the drone into a variety of our competitors, not only just drones, but USVs, UUVs, UAVs of many of our competitors today. It's because it's the best-performing and we believe in a very modular open systems architecture. So you can swap any of our subsystems with anyone else's, whether it's hardware or software, it's doable today. And that's how we build the architecture.

Q

And truly open system, because you hear an open system gets thrown a lot by some players that maybe aren't really open system, but they say they're open system.

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

A

Yeah. Well, the best – I completely agree with you. Right. An open system, there's a spectrum of openness to where you are. The best way that open system is being implemented, in my view, truly being open system is what the US Army is doing called MOSA. MOSA is a very robust effort by the US Army to develop a strategy on how to develop product from ground up that is compliant with open modular approach where the interfaces are standardized, you share that with the customer, you disclose that, they have that. And any time if someone else has a product that meets that requirement, it could be swapped in and out.

And P550 was designed from the ground up to be 100% MOSA-compliant. And it is today. In fact, every module is swappable. Switchblade 400 and Mayhem is designed from the ground up to be 100% MOSA-compliant. We did not go and tweak the product to become MOSA-compliant. We designed it from the ground up to be such in that way. Yeah. And so very much similar things can be said about JUMP 20. JUMP 20 airplane has 60-plus gimbals and payloads integrated into it. None of them are AV's own payload. They're all third-party payloads, whether it's a gimbal or an EW or a laser designator, we use a variety of different vendors products that we are – they're flying in the military customers today. And so we firmly believe in that. And that's open. Now, if you ask me, is the radio on our device completely open? There's only a certain level of openness that we can share there. Yeah. At the sub-system level, it's completely open modular.

Q

Got you. And then, Sean, another question for you, what lessons have – has the company learned from the acquisition of BlueHalo? My guess is that probably a little more bumpy than...

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

A

Yeah. We're one year in now. It's been one year since we closed. On May 1 of last year was our closing date. I've been part of the company for almost 16 years. I've been part of every M&A that we've done up to this point. Every other one was a tuck-in or bolt-on. This one was transformational. And we were very aggressive with that. We were intentionally taking parts of that business and reorganizing ourselves into two operating segments to ensure


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that we had the product capabilities, the go-to-market, the synergies of our technical teams working together to really set us up for the way we wanted to be projected in the next few years. That was a lot of effort to go under. We were doing at the same time that we're rolling out a lot of digital infrastructure changes in our own legacy company. So a lot of people changes, tool changes, process changes. But we did it intentionally and aggressively. So lessons learned is we're building on this. We're going to continue to be acquisitive. We're going to find other targets. And we are creating playbooks. We're getting more ahead of the plans and how we're going to roll people into the company. But this was kind of transformational, the BlueHalo deal.

Q

Is there any change that how you're thinking about when you diligence an asset?

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

A

We go through diligence on many different companies every year. We assess the contracts. We assess the pipelines, all the normal diligence, we do [ph] QOVs (00:24:22), we look through all that. I think we have a pretty robust process there on the diligence side.

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

A

Yeah. And I think one of the strengths of having Sean in this role is because he's got 15 years-plus of experience with AV. He is very aware and knowledgeable and deep into the business processes that we have, the digital transformation that he's referring to, we have basically gone massively invested in our ability to upgrade our ERP system to Oracle Fusion. We are, basically, the poster child of Oracle when it comes to Oracle adoption, Fusion, for aerospace and defense industry. And we're on our – we're now starting Phase 3. We're already done with Phase 1 and Phase 2. And so, that's – Sean has been instrumental on that. There's a lot of lessons learned in this area as you mentioned.

But we're not doing this slow. We're doing it to build that 180 company long term that is truly, truly integrated, diversified and it's got automation and a lot of, what I call, business process improvements in almost all of our processes.

Q

So kind of back to the beginning of our conversations, where we were talking about the DAWG, right? The way the budget process is coming together for fiscal 2027, it seems kind of complicated. Right now, there's talk of a third reconciliation. If reconciliation doesn't come through and a lot of the funding for DAWG is in that, how do you think about that? What does that mean for you guys? What does it mean for the industry?

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

A

Sure. I'm not an expert in this area, but we have some experts within our company that knows this really, really well, because they come from the Pentagon and from the legislative branch. Essentially, what I see is the following. I'll share with you what I believe based on what I've learned. And I think the department is trying to consolidate the decision-making in a lot of these areas. That's why they've taken a whole bunch of line items from


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a variety of different programs and line item budget, and putting it all into one big bucket called the autonomous systems, drones, unmanned, $75 billion. The likelihood of them getting that money is very high. If they get it all in one bucket or not, I don't know.

So, the question is, why do they get all of that put into one bucket? And the reason for that has to do with the fact that the secretary and Deputy Secretary Feinberg would like to have direct oversight and decision-making authority over what is being decided and how are we moving forward with that decision, A.

B, they really don't know what they're going to buy. They could be buying 1,000 Switchblade 300s or 5,000 Switchblade 400s or 2,000 Red Dragons. The number and these quantities of what flavor of what across the portfolio of all these systems is not really well-known, because they're developing requirements and playbooks as they're going forward. And so, their argument to the Congress is, I need to have some level of flexibility and that is counter-intuitive or anti the desire of the Congress.

They would like to have line items specificity to what are you going to buy and why and how many. And that is going to be a little bit of a battle between the department and the Congress. But overall is bipartisan support, both houses of Congress and the entire administration, that we need to fund defense at a much bigger levels. I think the $1.5 trillion is real, not unreal. And if they even get somewhere close to that number is a significant amount of money.

And they're going to have a difficulty spending it fast enough rather than can they actually get the money. And you know that we already have a record of them having this problem. And what makes it even more complicated is that there is this election cycle coming up. And if Democrats believe that they're going to pick up some seats and they're going to have control of one of the houses, that will incentivize them to just not cooperate right now. And I think the likelihood of a CR is probably not low. It's high. However, they're going to eventually get the money, I believe, because the need is there, the support is there. The question is, how much, where, and what form and when.

Q

Yeah, that makes sense. When you think about international demand, how durable is that? And how much do you worry about – as Europe goes up, as they invest in the industrial base and they build out their own industrial base, does that eat into your overseas sale? I mean, how do you think about the durability of [ph] international sale (00:29:19)?

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

A

Yeah. I mean, you see from our track record, right, we're a poster child of a success story about being able to successfully become a real, significant player internationally. And some years before BlueHalo, 50% of our revenue came from international sales or customers and products. So, we are very good at it. We've been increasing the number of countries. A, it's a legitimately significant part of our business. It's part of our diversified portfolio and customer base.

And lastly, I do believe this whole European demand could be a little bit overinflated. If there is a recession, as we know, and the countries that are claiming they're going to spend as much money, A, they want to do it domestically to some extent. So, they have a lot of incentives to make sure that companies like us become more local. And that's part of our plan. We've been aggressively attacking that and we continue to expand


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internationally. But I believe that the demand might be a little bit overstated too and they may not be realistically realizable for them.

Regardless, again, the same scenario applies internationally as domestically. The categories that we're in, it's not like buying more tanks, it's buying the stuff that they have none of, not money at all. And it's going to be a step-function increase even if they spent half of that much or one-third of the amount that they're claiming. And their problems are real. That mean the Russian threat in Europe is not going to go away.

The Chinese threat in the Pacific is not going away. And both of those two theaters have got a lot of vulnerable countries that need to do something about their national security. And we are really good because the solutions that we make is phenomenally more affordable than getting another F-35 or a F-22 or something like that. And we not only fit the strategic need, we also meet the economic equation very effectively because they can get more stuff with our stuff.

I mean, think about like JUMP 20, right? That is a great example. You can have a group four, five drone that cost $20 million, $30 million and the operating cost is massive. It's more vulnerable and it requires a full runway to operate and the infrastructure is huge. Or you can have a drone that takes off on the back of a small little fast ship, that's JUMP 20 that flies for 10 to 20 hours. And that solution and it does 80% of the missions of that bigger drone. And it has lethality, it has ISR, it has EW, SIGINT, all these missions you could fly. And that's why JUMP 20 has been so successful because we knew that there's a sweet spot that addresses the problem very effectively. And so those solutions are going to become more and more relevant because that's the most logical decision for a customer.

Q

Fraction of the price.

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

A

Fraction of the price, fraction of the logistical footprint. So much easier to retrofit a ship to put that on board than a fixed airplane. Huge, huge advantages. Safer, autonomy built-in. And these things are things that we've been working and knowing that this moment is going to end up happening eventually. And so those are the kind of examples that we're into.

Q

And then maybe just as we wrap up here, a question for both of you. I mean, how do you think about product development spending? I mean, for an innovative company, what is the right level of R&D spend? What is the right level of product development? What should you be spending? How should we think about that?

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

A

I would say this, there's always more demand and appetite for investments in R&D in a company – in AV than I've always been in the case. We have so much – not only just the viable opportunities but real, legitimate cases. I think it's part of our success strategy and our business model, and this is why it's being copied by hundreds of companies, if not thousands of other competitors, now they're getting into the space, which is we've always


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believed in developing products at an agile pace, ahead of the requirements, and delivering solutions to the customers' problems way ahead of even Program of Record, and then working with the customer to tweak it to make it perfect for the solution. And that's how our franchises were born. Historically, we've been between 10% to up to 18% of revenue in as low as 8%, 9% as high as that.

The BlueHalo acquisition brought the percentage down because the revenue went up and their R&D was much lower. We're like 7%, 8% now. But I think 8% to 9%, 10% is where we're going to be. We intentionally are not increasing EBITDA margins as we grow because we're going to continue to invest because we don't want to miss out on the growth. There is a significant growth coming our way. We need to develop these products and bring them to market so we can capture the opportunities. And there's a dozen different billion dollar programs that we're like the best contender for. And so that's why we're investing in things.

We've been launching new products every quarter, if not more than two or three times a year. We've got the JUMP 20-X. We've got Switchblade 400. We've got Mayhem. We've got X3. We've got Titan 4. These are all products that come out five, six products in the last 12 months alone. And that's where our money's going and we're winning programs with them and we'll continue to grow our business. So I think that is not going to change anytime soon in my...

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Q

Agree. Yeah. And of that – say that, call it, 9% just you're going to have it there, how much of that is customer-funded and how much of that is just you guys, your sweat equity?

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

A

So the 9% is 100% ours. Yeah. If you add the customer-funded R&D on top of that, it'll probably almost get to 15%.

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Q

Got you.

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

A

Yeah. But our own money alone is about – IR&D, internal R&D is about 8% to 9% a year.

---

Q

Got it.

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

A

Yeah.

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Q

Cool.

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

A

Exactly.

**Unverified Participant**

Well, thanks. I think we'll wrap it up there.

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

Thank you very much. Thank you for having us.

**Unverified Participant**

Yeah, yeah, yeah.

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

Wonderful.

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

Thank you.


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